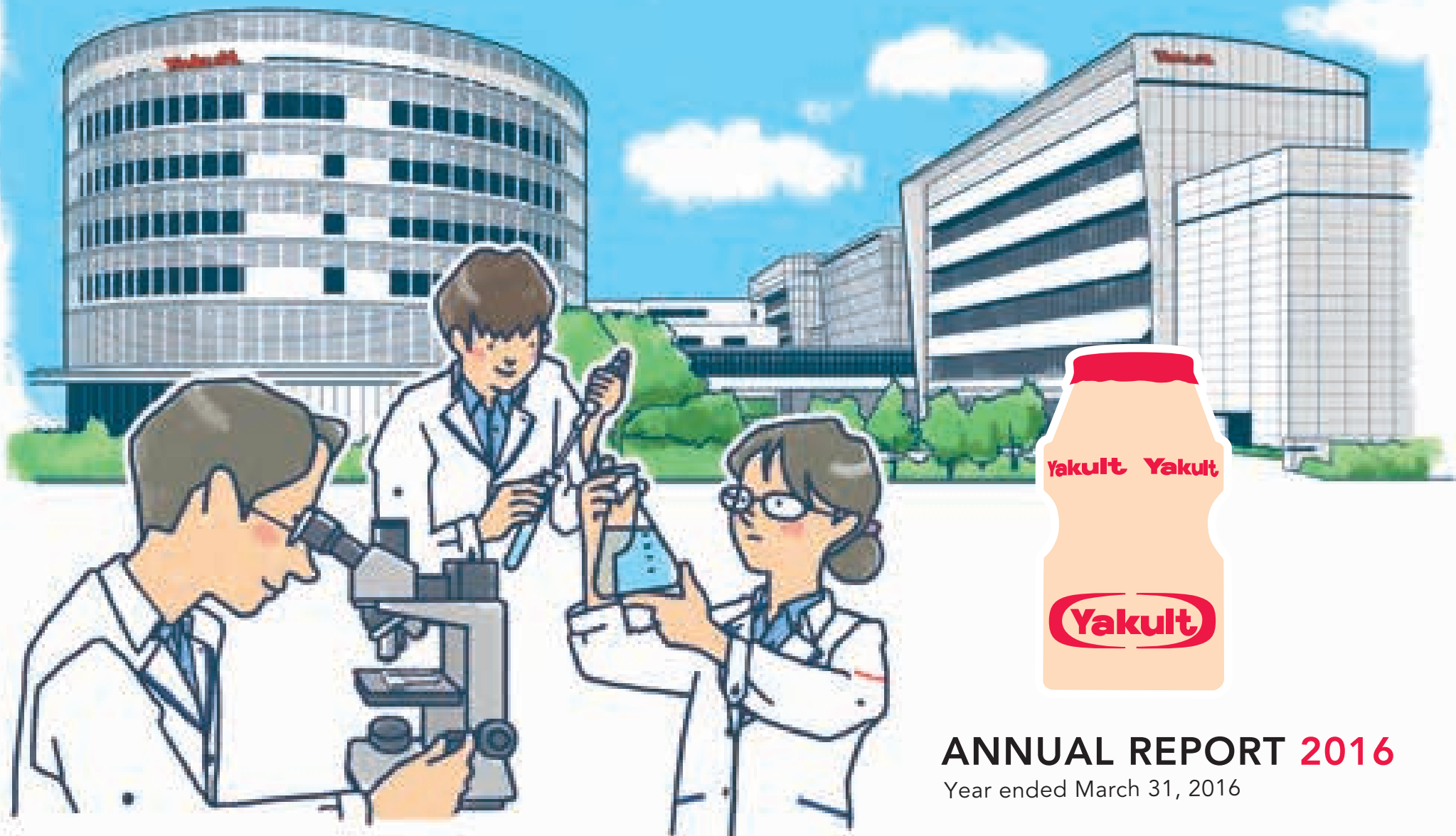


Yakult

Blazing New Trails in **Probiotics**



ANNUAL REPORT 2016

Year ended March 31, 2016

Growing from

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Forward-Looking Statements

Statements contained in the Annual Report 2016 regarding business results for fiscal 2016 represent judgments based on currently available information. It should be noted that there is a possibility that actual results could differ significantly from those anticipated due to such factors as exchange rate fluctuations.

Our founder,

Dr. Minoru Shirota, successfully strengthened and cultivated *Lactobacillus casei* strain Shirota while at Kyoto Imperial University School of Medicine (now Kyoto University). In 1935, he began sales of a fermented milk drink under the brand name *Yakult*.



In the more than 80 years since then,

Yakult has conducted its business activities around the world in ways based on Dr. Shirota's philosophy—Shirota-ism (preventive medicine, the idea that a healthy intestinal tract leads to a long life, and offering products at a price anyone can afford)—as explained on the next page.

As a Probiotics* pioneer,

we help to protect people's health in 33 countries and regions, including Japan, as of March 31, 2016. In addition to fermented milk drinks, Yakult operations in Japan today include a pharmaceuticals business, in which we handle anticancer drugs, as well as a cosmetics business.

* Probiotics: Live microorganisms that provide health benefits by improving the balance of intestinal flora.



Our Roots

The Sources of Yakult's Strength

Yakult has three unique sources of strength:

Products Power:

More than 80 Years as a Probiotics Pioneer

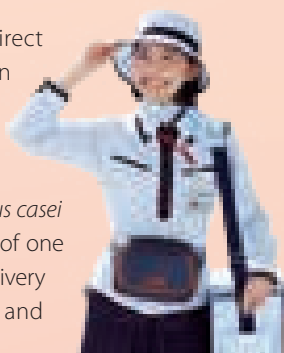
Since its founding more than 80 years ago, Yakult has been a pioneer in the field of Probiotics, providing products that contribute to good health. Today, Yakult has expanded beyond food and beverages to play an active part in the pharmaceuticals and cosmetics businesses as well.



The Yakult Lady System:

Everywhere Is Local

Yakult's products are offered through two channels, direct sales and home delivery sales. Our Yakult Ladies are an essential part of our home delivery sales. The strength of Yakult Ladies lies in their ability to communicate directly with customers, which allows them to convey the value and appeal of our proprietary living *Lactobacillus casei* strain Shirota and recommend continued consumption of one bottle of Yakult per day. Our unique Yakult Lady home-delivery system has been highly successful in many countries and regions in the world, including Japan.



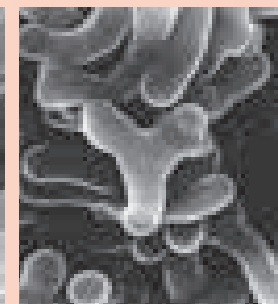
Dynamic R&D:

The Wellspring of Future Competitiveness

For Yakult, R&D activities vitally underpin its ability to create products that promote good health today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying basic materials in food, pharmaceuticals, cosmetics and other areas.



Lactobacillus casei strain Shirota



Bifidobacterium breve strain Yakult

Preventive
medicine

A healthy
intestinal
tract leads to
a long life

Shirota-ism

A price
anyone can
afford

Yakult Consumption around the World

Taking Good Health Global

THE AMERICAS

United States*
229 (Thousands of bottles/day)

Mexico*
3,497

Brazil*
2,031

EUROPE

The Netherlands*
167

United Kingdom*
185
(Thousands of bottles/day)

Belgium*
64

Italy **82**
Austria **12**

Germany
75

Financial Highlights

YAKULT HONSHA CO., LTD. and its consolidated subsidiaries
March 31, 2016, 2015, 2014, 2013 and 2012

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2012	2013	2014	2015	2016	2016
For the year:						
Net sales	¥312,553	¥319,193	¥350,322	¥367,980	¥390,412	\$3,485,827
Operating income	20,817	23,068	32,026	34,898	40,057	357,653
Net income attributable to owners of the parent	13,292	16,379	22,544	25,056	28,843	257,528
At the year-end:						
Total assets	¥397,214	¥438,176	¥519,571	¥579,345	¥577,535	\$5,156,560
Total liabilities	144,971	151,077	211,538	217,132	212,070	1,893,481
Total equity	252,243	287,099	308,033	362,213	365,465	3,263,079
Financial ratio:						
Return on equity (ROE) (%)	5.8	6.7	8.4	8.4	8.8	
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 77.32	¥ 95.03	¥ 134.44	¥ 151.58	¥ 174.54	\$ 1.56
Total equity (Note 3)	1,328.61	1,517.88	1,662.37	1,966.13	2,007.73	17.93
Cash dividends applicable to the year	22.00	23.00	24.00	25.00	50.00	0.45

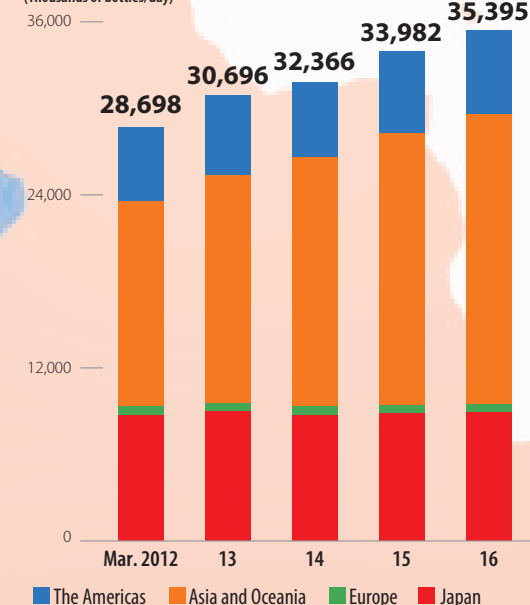
Notes: 1. Figures are rounded to the nearest million.

2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112 to U.S.\$1, the approximate rate of exchange at March 31, 2016.

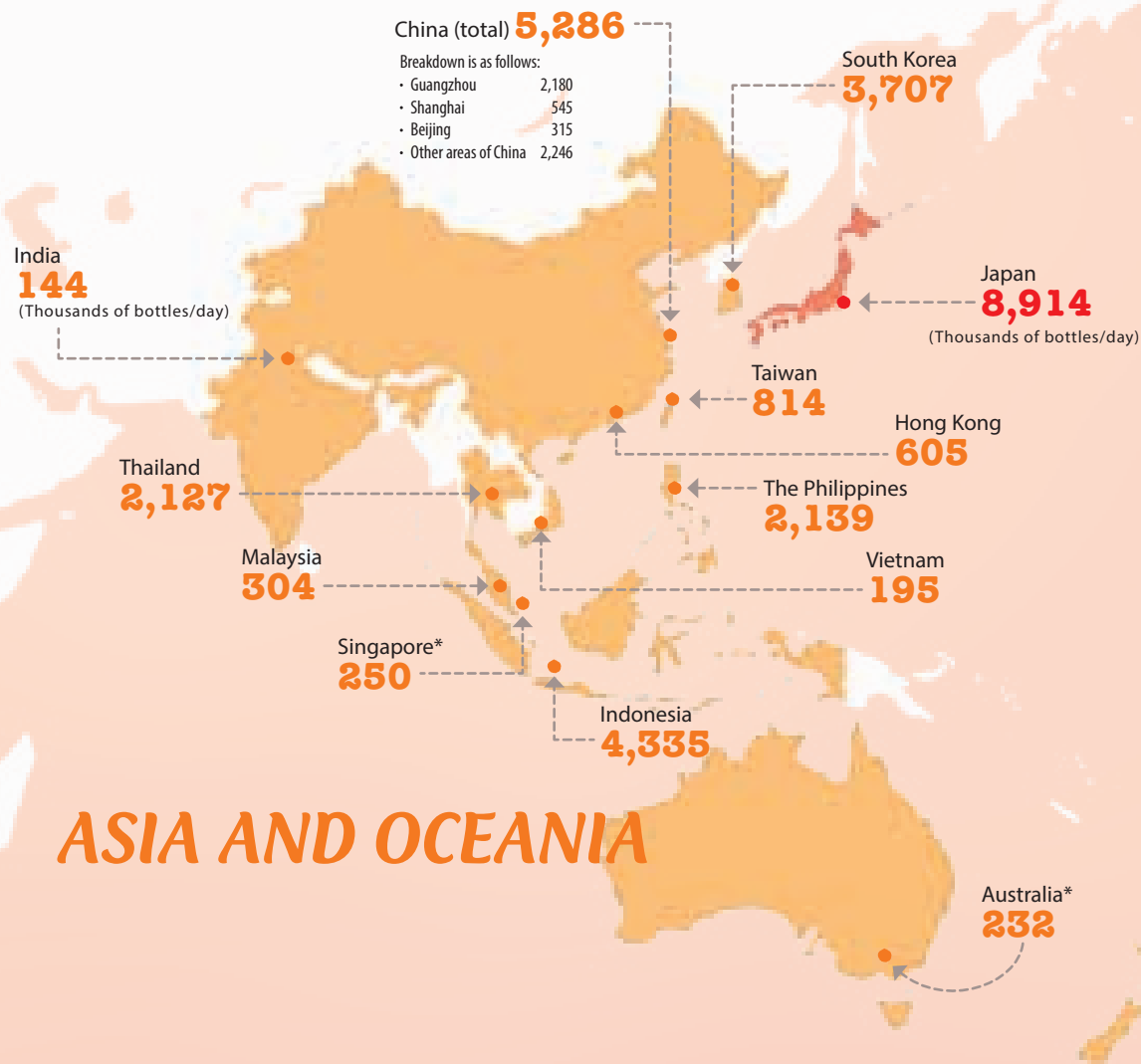
3. Minority interests are not included in equity on process of calculation.

Sales Volume by Region

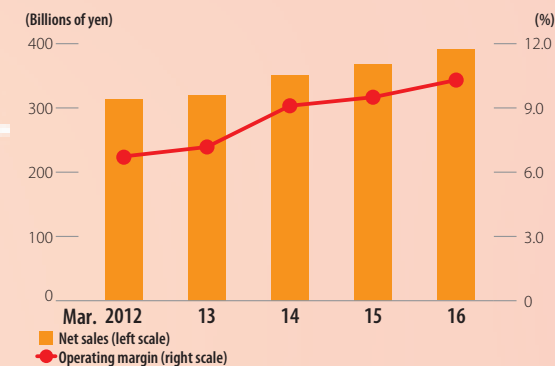
(Thousands of bottles/day)



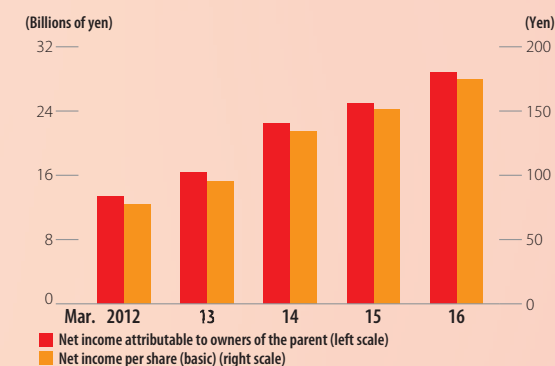
ASIA AND OCEANIA



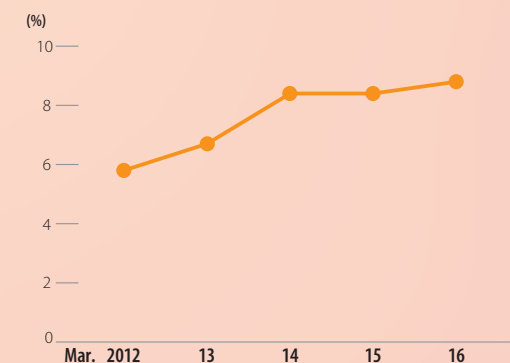
Net Sales and Operating Margin



Net Income Attributable to Owners of the Parent and Net Income per Share (Basic)



ROE



* Countries where test and other sales are conducted: Luxembourg, France, Spain, Brunei, Uruguay, Canada, Belize, Malta and Switzerland

To Our Shareholders

Sumiya Hori

*Chairman and Representative Director
Chief Executive Officer*

Takashige Negishi

*President and Representative Director
Chief Operating Officer*

Taking a Solid Step toward the Next Phase of Growth

Marking our 80th anniversary, we held the 2015 Yakult World Convention last December, where nearly 10,000 Yakult Ladies and employees from Japan and abroad gathered in Tokyo to take a confident new step toward the next phase of growth. The convention, which ended successfully, let us share our power, passion, and sense of unity, and was a perfect setting for commemorating the climax of our 80th anniversary.

On reflection, we believe that we were able to confidently take a new step toward the next phase of growth during the fiscal year under review, despite an increasingly difficult business environment surrounding the Yakult Group. In the production division, the Yakult Okayama Wake Plant started full-fledged operations as a bottling plant for *Yakult* products, establishing a production system that delivers higher-quality dairy products in response to the need for food safety and peace of mind. In the

research and development division, construction of the new research institute was completed to succeed in globally competitive R&D.

In a year in which we commemorated the 80th anniversary of our founding, consolidation of production subsidiary plants was completed following plant reorganization in the production division. In the R&D division, completion of the new research institute with an emphasis on basic research centered on Probiotics and Synbiotics makes it possible to speedily reflect the fruits of functional research in commercialization by product type, and engage in product creation in a productive manner that stresses quality and safety assurance. We are pleased to have established two major pillars that support our business, and we believe that the business foundation for the future has moved definitively to a higher stage.

On the sales front, where we had also taken a new step, we saw success in our initiatives with The Walt Disney Company (Japan) Ltd. that began last year. We believe that the goodness of our Probiotics products containing our proprietary *Lactobacillus casei* strain Shirota, as well as the joy offered by Walt Disney—the world's No. 1 brand—create new added value based on a win-win relationship. We also believe that this collaboration was received favorably by customers.

Although the business environment is expected to remain extremely volatile in the foreseeable future, we at Yakult keep close to our hearts the mission statement of our founder, Dr. Minoru Shirota—“protecting the health of people around the world”—as we work steadily and thoroughly to deliver good health and smiles to as many people as possible. We look forward to reporting to you the outcome of the Group's persistent efforts toward new growth.



Sumiya Hori
Chairman and Representative Director
Chief Executive Officer



Takashige Negishi
President and Representative Director
Chief Operating Officer

Message from the Chairman and President



Results for Fiscal Year Ended March 31, 2016

Marking record-high net sales and all stages of profit for the fourth straight year

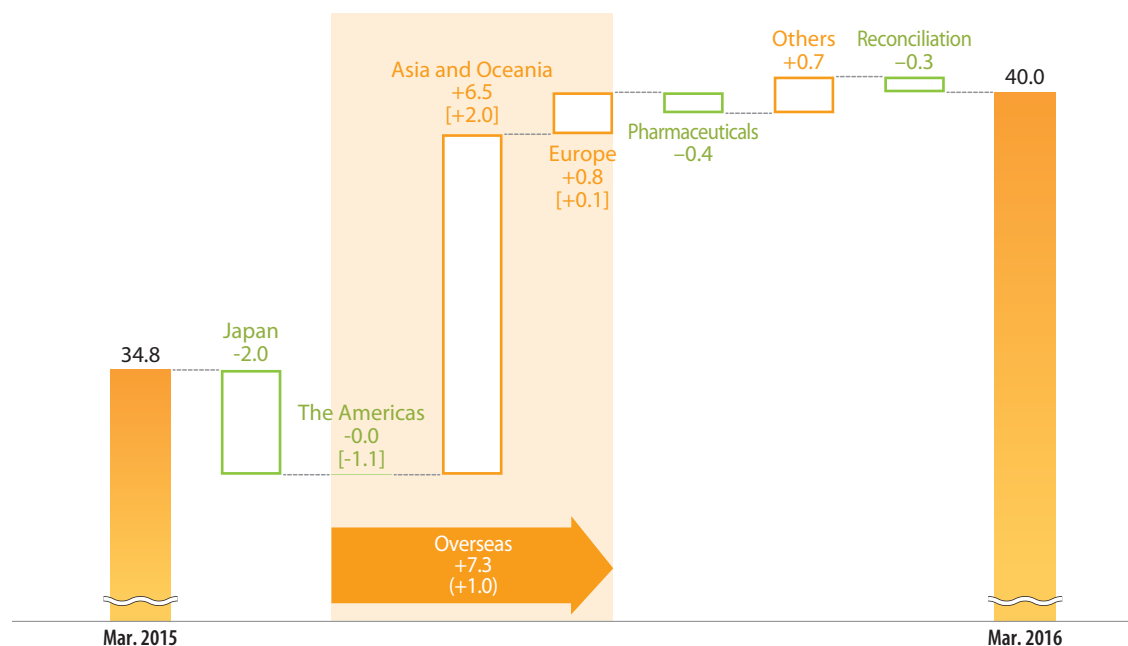
We have achieved record-breaking net sales, as well as records for all measures of profit, for four fiscal years in a row.

The overseas food and beverages business experienced significant growth in bottle sales, specifically in Asia, which drove overall net sales and operating income. In Japan,

we saw sales increase due to an increase in bottle sales of dairy products along with the effects of price adjustments, while profit decreased due to higher selling expenses. The pharmaceuticals business saw a rise in sales and a drop in profit due to mixed factors, such as a recovery in sales of our mainstay *Elplat* following a fall in response to a consumption tax increase and greater selling expenses.

Operating income: Factor analysis (YoY change)

(Billions of yen)



Notes: 1. Japan, the Americas, Asia and Oceania, and Europe belong to the Food and Beverages business.
2. The amounts in brackets are the increase/decrease in foreign currency translation adjustments.

Looking Ahead and Key Strategies

1 Long-Term Vision “Yakult Vision 2020”: Progress and Revision

During the fiscal year under review, which was the second year of Phase II, we set new records for net sales and all measures of profit. However, net sales and operating income both fell slightly short of our forecast, which was revised upward in November 2015. In addition, as shown in the figure below, there were some differences between our forecast for fiscal 2016 (the fiscal year ending March 31, 2017), which is the final year of Phase II, and our initial plan, which was set as the target for Phase II (¥420.0 billion in consolidated net sales and ¥43.0 billion in operating income). These arise from differences in assumptions for

factors such as exchange rates, in addition to delays in business development.

We will evaluate and analyze Phase II results again at the close of fiscal 2016, and then revise the ultimate goals of “Yakult Vision 2020,” which are ¥500.0 billion for net sales and ¥50.0 billion for operating income. We will promote business operations to achieve these goals as soon as possible. Our business forecasts are explained below by segment. For more details of the results for the fiscal year under review (fiscal 2015), please refer to “Review of Operations” on pages 16–21.

2 Overseas Food and Beverages

Our challenge is to achieve total sales of more than 10 billion bottles in fiscal 2016.

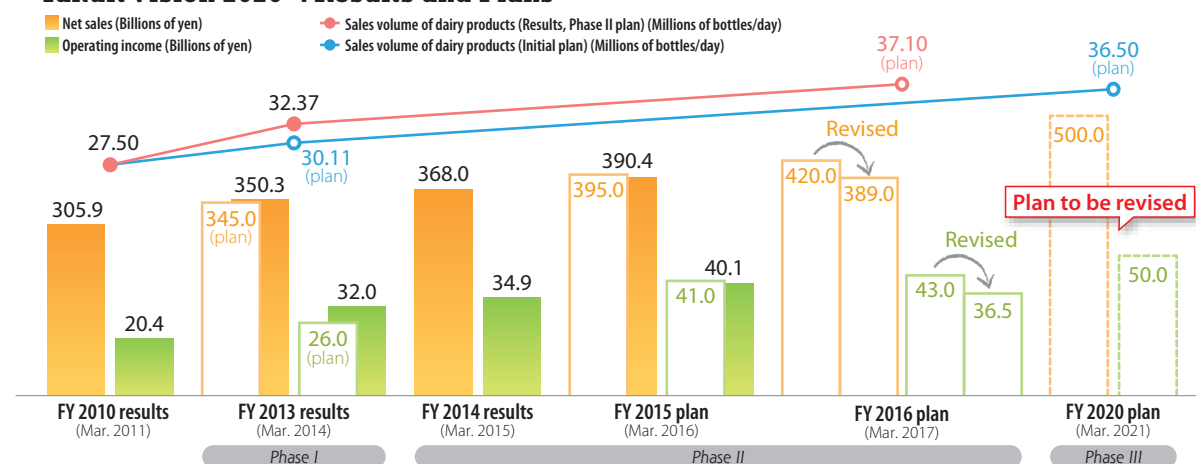
We will aim to create another high-growth market like Indonesia in the medium and long term.

Our plan for the final year of Phase II, fiscal 2016, in the overseas food and beverage business is to achieve net sales of ¥156.4 billion (down 1.3% from the previous fiscal year) and operating income of ¥37.6 billion (down 6.9%). While forecasted to decrease due to the effects of exchange rates, sales and income are both expected to rise on a local currency basis. In terms of average daily bottle sales (overseas total), we are targeting 27.5 million bottles a day, which would surpass last year's results, or a total of more than 10 billion bottles a year.

We expect the greatest growth in sales volume in the Asia and Oceania region, with the most dramatic growth being recorded in the Indonesian market. The key to success in the Indonesian market is our home delivery channel, the Yakult Lady System. Under this system, the growth of our home delivery channel is supported in terms of quantity and quality by the active recruitment and thorough training of Yakult Ladies. The growth of our home delivery channel has led to improved performance of the retail store channel, resulting in a dramatic increase in sales volume. In Asia, we are confident that we can create another high-growth market like Indonesia by further promoting the home delivery channel.

In the Americas, we aim to achieve sustainable growth in sales volume in Mexico, which is a profit center in the region

“Yakult Vision 2020”: Results and Plans



Message from the Chairman and President

and has not seen a year-to-year decrease since the business was established, by revitalizing both home delivery and retail store channels. In the United States, we will enter the mid-west, adding to the six West Coast and other states where we already have a presence. In Brazil, whose economy has remained stagnant, by extending our ongoing efforts to expand the market to states outside São Paulo, we will cultivate and expand the customer base by strengthening our sales force.

In Europe, we will continue scientific and PR activities to obtain a health claim certification for our Probiotics products from the European Food Safety Authority (EFSA), while developing operations with a view to entering the Northern and Eastern European markets.

3 Pharmaceuticals

We will further boost our strong presence in the anti-cancer drugs field, while eyeing strategic alliances in the disease field in the medium term.

We were faced with a struggle in the pharmaceuticals business during the fiscal year under review due to the accelerated replacement of our mainstay *Elplat* by generic products, despite a year-on-year increase in net sales. With a NHI price revision effective in fiscal 2016, the price of *Elplat* will fall significantly by 16.4% as a result of the restitution of the premium to promote the development of new drugs and eliminate off-label use, in addition to regular price revisions. The weighted value of all products after the price revisions will be around 15%, which would make the business environment even tougher.

Our plan in the pharmaceuticals business for fiscal 2016 is to achieve net sales of ¥30.0 billion (down 13.8% from the previous fiscal year) and operating income of ¥3.1 billion

Close-up

Aiming to Achieve Double-Digit Growth Again in the Huge Chinese Market in Fiscal 2016

The Chinese market is divided into four areas: Shanghai, Beijing, Guangzhou, and "other areas of China." Among these, "other areas of China" is the driving force of growth. In "other areas of China," our marketing population has increased as a result of the expansion of product supply areas covered by our sales bases, and it constitutes a huge market of more than 500 million people. In this area, nearly two million bottles are currently sold per day, but the population ratio, which represents our penetration rate, is still at a low level compared to the other three areas. With previously entered areas set as benchmarks, we aim to achieve double-digit growth again for the Chinese market as a whole in fiscal 2016 by further expanding sales volume.

Marketing Population



Bottles Sales in China (Thousands of bottles)



(down 42.2%). We will continue our efforts to disseminate standard therapy containing our core product *Elplat* in the fields of colorectal cancer and pancreatic cancer, and to promote market penetration with an additional indication for the treatment of gastric cancer, which was approved in November 2015, as soon as possible. We will also focus on activities to retain the No. 1 market share for generic products. In the medium term, with an eye to introducing new drugs and generic products and forming strategic alliances in the disease field, we aim for recovery and growth in the pharmaceuticals business.

Regarding *Elplat*, our supplier, Debiopharm International SA, has sued 13 generic drug companies for patent

infringements. Depending on the progress of trial proceedings, *Elplat's* market environment could change significantly.

4 Domestic Food and Beverages

We aim to get back on a growth track by strengthening marketing strategies, such as entering Japan's largest distribution channel—convenience stores (CVS).

Our plan for the domestic food and beverages business in fiscal 2016 is to achieve net sales of ¥202.6 billion (up 1.8%

from the previous fiscal year) and operating income of ¥12.0 billion (up 25.9%). In recent years, the Probiotics products market has grown dramatically in Japan. Here, in Japan, the birthplace of Yakult, our pharmaceuticals business currently faces a challenging situation, which makes us keenly aware of the need to regain share in the dairy products market and pursue renewed growth in our core business. To this end, we will reinforce our domestic marketing strategies once again. If it is difficult to achieve results in a single fiscal year, we are committed to investing more years to see through our plan.

In fiscal 2016, with our symbolic strengths—*Yakult 400*, Yakult Ladies, and our R&D and technology capabilities—known as the “three arrows” in Yakult advertisements, we will coordinate communications and conduct a major marketing campaign using these three aspects, in an effort to raise the presence of Yakult among our customers.

Given its contribution to refreshing the images of two of our core products, *Joei* and *New Yakult*, we will continue our tie-up with the global brand, The Walt Disney Company (Japan) Ltd. in the current fiscal year. Through intensive TV advertising for *Joei* and *New Yakult*, we will promote the development of the sales environment.

Taking up the challenge of creating new markets, we will focus on capturing the CVS market, which is the largest distribution channel in Japan. We expanded sales of *New Yakult 6-Pack* nationwide from April 2016 due to strong performance. Further, sales of *Mainichi Nomu Yakult*, which is a tie-up product with Seven-Eleven, were expanded to all Seven-Eleven locations across the country from May 2016 as a result of a positive response from customers. In Japan, we will continue to implement marketing measures to revitalize the Yakult brand, from a number of perspectives.

Return to Shareholders

For the fiscal year under review, we distributed a commemorative dividend in addition to an increased ordinary dividend.

For fiscal 2016, we will raise the annual base dividend as well as the ordinary dividend.

For the fiscal year ended March 31, 2016, we decided to pay an annual dividend of ¥30.0 per share, up ¥5.0 from the prior fiscal year, to continuously increase the return to shareholders. Furthermore, we decided to add a commemorative dividend of ¥20.0 to the base annual dividend of ¥30.0, for a total dividend of ¥50.0 per share. This increased dividend is intended to celebrate the 80th anniversary of Yakult’s founding during the year, and is an expression of gratitude to shareholders for their steadfast support. We have already declared and paid an interim dividend of ¥25.0 per share,

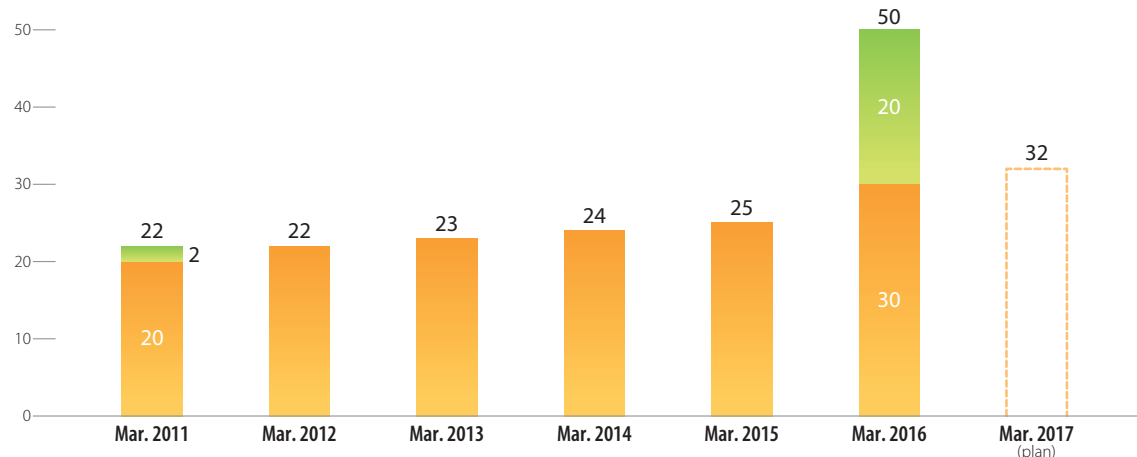
and the balance of ¥25.0 per share will be distributed to our shareholders as the year-end dividend.

For the fiscal year ending March 31, 2017, we plan to increase the base annual dividend from ¥20.0 to ¥30.0 and raise the annual dividend by ¥2.0 to ¥32.0 in an effort to continue to offer higher returns to shareholders.

Although the business environment is expected to remain extremely volatile in the foreseeable future, we intend to maintain our efforts to operate and manage our business in a way befitting the expectations placed on us by shareholders. We look forward to reporting to our shareholders the outcome of the Group’s persistent efforts toward further growth.

Dividends

(Yen) ■ Ordinary dividend ■ Commemorative dividend



SPECIAL
FEATURE

Blazing New Trails in Probiotics





Globally Competitive R&D Base Completed

Yakult Honsha has expanded the premises of the Yakult Central Institute and completed five research buildings that are comprehensively equipped with cutting-edge equipment (the Research Administration Building, Basic Research Building, Food Research Building, Pharmaceutical

and Cosmetic Research Building, and Quality and Technical Development Building).

In 1967, the Yakult Central Institute was relocated to Kunitachi City, Tokyo as a base for lactic acid bacteria research. Subsequently, with the objectives of maintaining and strengthening research and development capabilities and technical capabilities, new buildings such as the Food Research Building, equipped with functions spanning R&D of food ingredients to commercialization, were constructed at the same site between 2006 and 2010. Four more new research buildings were constructed from 2012, including installation of advanced research equipment and devices, enhancing the overall research environment. These activities have enabled us to complete a top-level R&D base that will help us succeed in globally competitive R&D. As a pioneering company in Probiotics, we will contribute to boosting corporate value in our global business operations by accelerating the development of innovative products, as well as gathering evidence supporting the efficacy of Probiotics.

An Overview of the Yakult Central Institute

Basic Information

Establishment	April 1955 (initially launched as the Shirota Institute for Research on Protective Bacteria)
Number of Employees	Approximately 300
Site Area	29,781.65 m ²
Predominant Research Content	Materials development and application research for food products, pharmaceuticals, and cosmetics that are beneficial in maintaining, promoting and revitalizing people's health
Major Research Fields	Microbiology, nutritional science, physiological sciences, immunology, biochemistry, bioengineering, organic chemistry, fermentation engineering, natural products chemistry, pharmaceutical science, analytical chemistry

Research Facilities

Research Administration Building, Basic Research Building, Food Research Building, Pharmaceutical and Cosmetic Research Building, Quality and Technical Development Building, etc.

New Yakult Central Institute

Introducing you to our cutting-edge research institute.

1

Research Administration Building



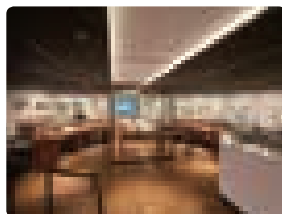
This building is used by the General Affairs and Research Management Department, which handles general administration for the entire institute, and the Quality Assurance Unit, an entity independent of other research departments. It houses the International Conference Hall, where research results can be announced to an international audience, and the Shiota Memorial Museum, which covers the life and research of our founder, Dr. Minoru Shiota.



The Quality Assurance Unit ensures the credibility of research data relating to the verification of safety and efficacy in product development from a third-party perspective.

The International Conference Hall has 320 seats and simultaneous interpretation equipment for two languages. The Company will use it as a forum for actively deepening exchange with researchers in Japan and abroad in the field of science.

The Shiota Memorial Museum introduces Dr. Shiota's upbringing and the history of Yakult as well as the spread of Shiota-ism throughout the world.



A Research Institute Surrounded by Forest and Water

The Yakult Central Institute is surrounded by rich nature. We are thankful for the land, people, and environment here and strive to be a facility in harmony with our surroundings.

Basic Research Building

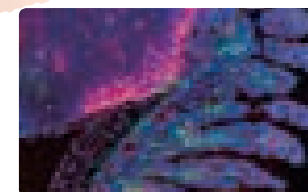


In this building, which is a cornerstone of the Institute, we carry out research to scientifically prove the relationship between intestinal microbiota and health as well as the idea that "a healthy intestinal tract leads to a long life." The building also plays the role of supporting the foundation of Probiotics research at the Institute, and comprises three departments.

2

Basic Research Department

The Basic Research Department works to scientifically verify the concept that "a healthy intestinal tract leads to a long life" by elucidating the relation between intestinal bacteria and the physiology of the host, and supports development research proprietary to Yakult at its foundation by creating product ingredient value in terms of preventive medicine.



Confocal laser scanning microscope image of immunocytes in the intestine

Microbiological Research Department

The Microbiological Research Department specializes in the research of microbes and elucidates physiology that has yet to be clarified, converts newly discovered useful microbes into resources, and applies them in product development.

Safety Research Department

The Safety Research Department evaluates the safety of all materials for food products, pharmaceutical products and cosmetic products. The evaluation of the safety is enforced rigorously based on its own stringent specifications and standards.

3

Food Research Building

In this building, we seek out useful microorganisms and functional food ingredients, evaluate their effectiveness, and conduct applied research based on bio-engineering technologies, including fermentation technology using lactic acid bacteria.

Food Research Department

The Food Research Department evaluates the effectiveness of food ingredients and their nutritional functions and conducts applied research based on bioengineering technology by using the Company's research assets and results of basic research with the objective of developing new functional foods with high added value that can contribute to health and improve QOL (Quality of Life).



Verifying the functionality of food ingredients

4



Pharmaceutical Research Department

The role of the Pharmaceutical Research Department is to develop new pharmaceutical products that have high added value by utilizing the results of our research in the cancer field. The department is also evaluating in-licensing opportunities for drug candidates.

Analytical Science Department

The Analytical Science Department is responsible for researching and developing analytical technologies required for ensuring product quality and producing new products. Using comprehensive high-precision analysis techniques, the department verifies and ensures the safety of products, and analyzes environmental conditions and microbes.

Pharmaceutical and Cosmetic Research Building

Researchers at this building conduct proprietary development research on pharmaceutical products with a focus on the field of oncology as well as on functional cosmetics utilizing effective microorganisms. It also houses the Analysis Center for contract-based analysis, and comprises three departments.

Cosmetic Research Department

The Cosmetic Research Department conducts evidence-based R&D on new cosmetics based on dermatology and microbiology. In addition, it carries out technical research on the blending of cosmetic ingredients in emulsions, and so on.

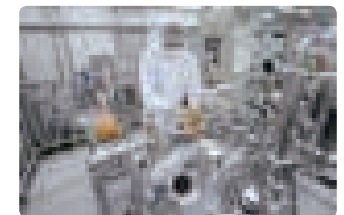


Electron Microscopic photo of irinotecan hydrochloride

5

Quality and Technical Development Building

Fully equipped with plant rooms for technological development in food ingredient development research, this building also houses the headquarters and quality assurance functions of our affiliated company, Yakult Pharmaceutical Industry Co., Ltd.



Microorganism culture test

Research & Development

Since the Company's foundation, its R&D activities have vitally underpinned its ability to create products that promote good health today and in the future. The R&D Division pursues fundamental research in life science aimed at developing and applying basic materials in food, pharmaceuticals, cosmetics and other areas.

The Yakult Central Institute and the Yakult Honsha European Research Center

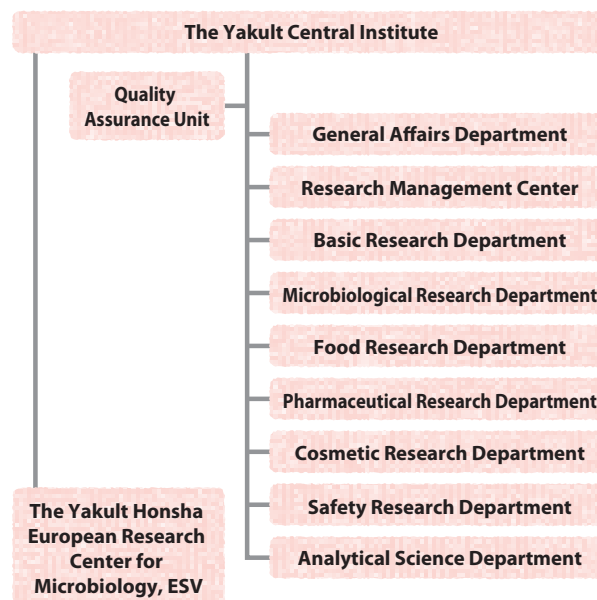
The Yakult Central Institute consists of seven functional research departments, a General Affairs Department that is responsible for managing the Institute, and a Research Management Center that is in charge of planning research strategies, promoting domestic and overseas research activities, and controlling and communicating information. In addition, the Quality Assurance Unit was set up as a specialized department in charge of securing and ensuring the reliability of a range of studies, research operations, and research data at the Institute. Outside Japan, the Yakult Honsha European Research Center for Microbiology, ESV (YHER) was established in Ghent, Belgium. The YHER gathers scientific evidence on the benefits of drinking our Probiotics products. By establishing a research base in Europe, an advanced region for study of microorganisms, our goal is to support global business expansion encompassing not only Europe but also the Americas and Asia.

Steps in R&D Activities

A number of steps need to be taken before a product is created. The Yakult Central Institute is responsible for developing functional materials, which proceeds in three steps: (1) basic research, (2) development research on materials, and (3) research on commercialization. Candidate materials undergo full-scale product development conducted by the product development department under each business division.

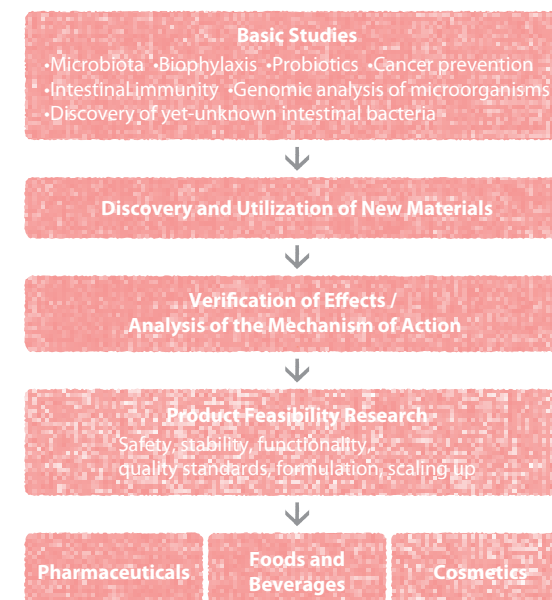
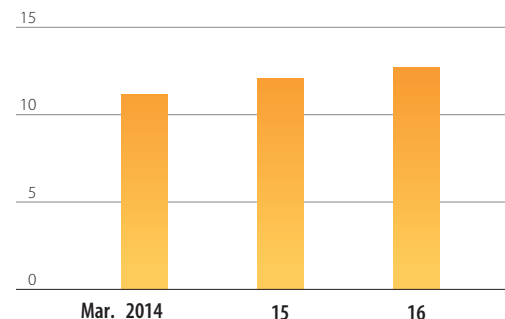
At the stage of research on commercialization, each segment focuses on its own themes. The Institute conducts research and development proprietary to Yakult in individual segments, such as ingredients with functions to maintain and promote health in the food segment, high-cancer specificity ingredients that are potential anti-cancer drugs in the pharmaceuticals segment, and safe and effective dermatology-based ingredients in the cosmetics segment.

Organization of the Yakult Central Institute



Research and Development Costs

(Billions of yen)



Recent R&D Activities

Identification of 20 types of intestinal bacteria involved in the induction of Th17 cells. Expected to help establish diagnostic and therapeutic methods for autoimmune diseases:

Joint study with a research group based in Keio University School of Medicine

We investigated the inductive mechanism of Th17 cells (immuno-cytes) which are involved in protection against infection and the development of diseases such as inflammatory bowel disease or autoimmune diseases in a joint study with a research group based in Keio University School of Medicine and the Institute of Physical and Chemical Research (RIKEN). As a result, it was clarified that Th17 cells are induced by strong adhesion of intestinal bacteria to the small intestinal epithelium. In addition, we succeeded in identifying 20 types of human intestinal bacteria involved in this induction. These results are expected to contribute to the establishment of diagnostic and therapeutic techniques for autoimmune diseases including inflammatory bowel disease, and the development of probiotics for the control of infectious diseases. The study results have been published in *Cell*, an academic journal.

Continuous intake of *Lactobacillus casei* strain Shirota improves the health of residents of facilities for the elderly:

Probiotics Research Laboratory, Juntendo University Graduate School of Medicine

We conducted a continuous intake study of probiotic beverages containing *Lactobacillus casei* strain Shirota with residents of facilities for the elderly in a joint study with the Probiotics Research Laboratory of the Juntendo University Graduate School of Medicine. As a result, improvement of their health including a reduction in the number of days with fever and a decreased frequency of diarrhea or constipation, and an improvement in their intestinal microbiota and environment were confirmed. The study demonstrated that the continuous intake of probiotic beverages is expected to reduce the risk of infectious diseases and improve the QOL of residents of facilities for the elderly. The study results have been published in the *Annals of Nutrition & Metabolism*, an academic journal.



Automatic intestinal flora analysis system for YIF-SCAN®

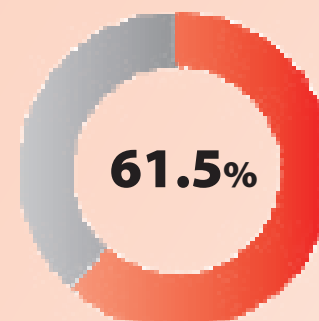
Review of Operations

JAPAN

Yakult pursues several businesses in Japan. In addition to the Food and Beverages business centered largely on Probiotic products, our Pharmaceuticals business entails manufacture and sales aimed at developing Yakult into a pharmaceuticals specialist in the treatment of cancer. Cosmetics and a professional baseball team, meanwhile, are central operations in our "Others" business segment. For the fiscal year ended March 31, 2016, net sales in Japan came to ¥254.1 billion.

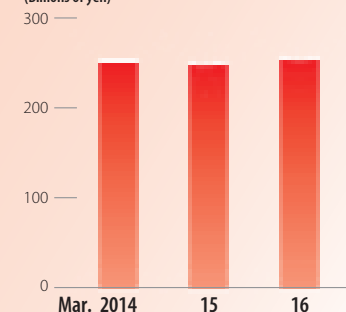
Note: Sales by business segment and percentage of net sales by region include intersegment transactions.

Percentage of Net Sales by Region (%)



Net Sales

(Billions of yen)



Food and Beverages



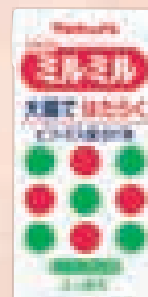
New Yakult



Yakult 400



Joie



Mil-Mil



Sofuhl



In Probiotic products, Yakult focused on broadening the recognition of the science behind, and the value of, its proprietary living *Lactobacillus casei* strain Shirota, and vigorously expanded value dissemination activities that utilize scientific evidence. For the 80th anniversary of our founding, we also worked to further strengthen relationships with customers mainly through the 80th Anniversary Thanks Campaign, held in April 2015 to express Yakult's appreciation to customers.

By product, the drinkable yogurt *Joie* series was the subject of both an update and price revision in June 2015. In addition, we increased sales by introducing *Joie* packages featuring Disney characters under a license agreement with Walt Disney Company (Japan) Ltd. In March 2016, we updated fermented milk products *Mil-Mil* and *Mil-Mil S* and revised the price of *Mil-Mil*, boosting these products' value and giving them a fresher presence.

Through our home delivery channel, our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT* were at the center of value dissemination activities we undertook to generate new customers. We also worked to bolster our home delivery organization through active use of advertisements including TV commercials featuring Yakult Ladies, to continuously support Yakult Lady hiring activities.

Through our retail store channel, we expanded value dissemination activities carried out by promotion staff geared toward our customers, centered on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*. In September 2015 we released the *New Yakult Calorie Half 10-Pack* for mass retailers, followed in October by the *New Yakult 6-Pack* for convenience stores in Tokyo and six other prefectures in the Kanto area. In November, we launched the fermented milk drink *Mainichi Nomu Yakult* at Seven-Eleven locations in Tokyo and three other prefectures in the Kanto area, and expanded the sales areas in January 2016.

In juices and other beverages, we updated the nutritional drink *Toughman* series as well as the lactic drink *Milouge* series in May 2015 to vitalize the brands. We also aimed to boost sales through means such as higher priority at vending machines for the carbonated fruit juice drink *Sappari* series and the fluid and mineral replacement beverage *Mineral Charge*.

In other developments, the Tokyo Yakult Swallows won the Central League Championship and went on to play in the Japan Series in October 2015. To demonstrate our appreciation to fans who had shown their support for the team, we carried out commemorative measures for dairy products, juices and other beverages.

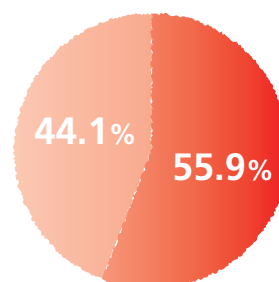
As a result of our efforts to bolster the sale of our products centered on such initiatives, overall sales of dairy

products surpassed those of the previous fiscal year. Sales in the juices and other beverages segment did not increase, however, reflecting sluggish sales growth in the functional drinks market.

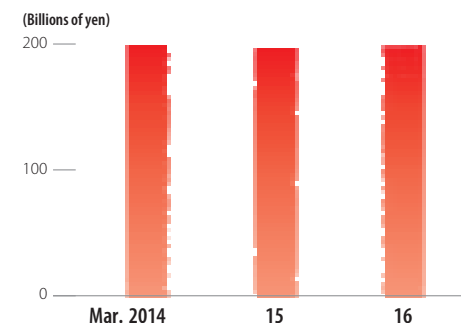
Net sales in the Food and Beverages business increased to ¥199.0 billion, up 0.9% from the previous fiscal year.

Breakdown of Probiotic Products Sales by Channel (%)

■ Sales by Yakult Ladies
■ Sales via supermarkets, convenience stores, and other outside channels



Net Sales of Food and Beverages



Pharmaceuticals



Campto 40mg for I.V. Infusion



Elplat I.V. Infusion Solution 100mg



Gemcitabine for I.V. Infusion 200mg Yakult



In Japan, we focused on promoting dissemination of the antineoplastic drug *Elplat* as a standard treatment for unresectable advanced or recurrent colorectal cancer as well as its use in postoperative chemotherapy for colorectal cancer. We also promoted activities recommending the proper use

of a FOLFIRINOX regimen for the treatment of metastatic pancreatic cancer, which employs the antineoplastic drugs *Campto* and *Elplat* and the activated folinic acid drug *Levofolinate Yakult*. Similarly, we expanded the indication of *Elplat*. An additional indication of adjuvant chemotherapy

for gastric cancer was approved in November 2015, and combined with the indication of advanced or recurrent gastric cancer approved in March 2015 resulted in the indication of gastric cancer. Thereafter, we redoubled efforts to hold lectures and medical office briefings targeting medical

Review of Operations

professionals to increase the penetration of *Elplat* in the gastric cancer area, and to expand market share. In addition, we sought higher sales following efforts to intensify sale channels development for antineoplastic antimetabolite *Gemcitabine Yakult*, generic antineoplastic drug *Imatinib Yakult*, osteoclastic inhibitor *Zoledronic acid Yakult*, and *Docetaxel Yakult*, a generic taxoid antineoplastic drug, which was launched in June 2015.

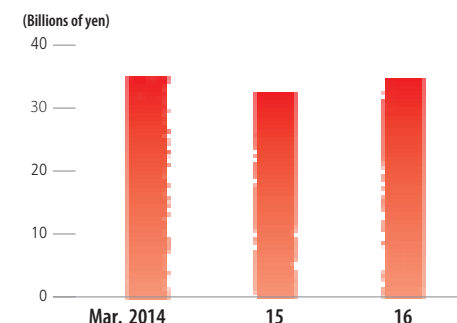
However, these efforts were not sufficient to boost overall sales significantly, due to the switch to the generic drug for *Elplat* by some medical institutions after the generic drug was launched in December 2014.

In R&D, we expedited the development pipeline of oral HDAC inhibitor *Resminostat* by 4SC AG, PI3K/Akt inhibitor

Perifosine by Aterna Zentaris Inc., and novel platelet increasing agent NIP-022 (Yakult's development code: YHI-1501), on which we entered into a co-development and license agreement with Nissan Chemical Industries, Ltd. in October 2015. Through these efforts, we aim to further strengthen our position in the cancer-related field.

As a result, net sales in the Pharmaceuticals segment increased 6.9%, to ¥34.8 billion.

Net Sales of Pharmaceuticals



Others

This segment encompasses Yakult's cosmetics operations as well as its professional baseball team operations.

In our cosmetics operations, we continued to expand sales activities for basic skin care products such as our core brands *Parabio*, *Revecy* and *Revecy White*, with a focus on home visits to counsel customers on cosmetics, emphasizing the value of our original moisturizing agent, *S.E. (Shirota Essence)*, derived from our research on lactic acid bacteria since the Company's foundation.

Specifically, we worked to attract new customers by thoroughly implementing sales measures for which themes

and key products were set each quarter.

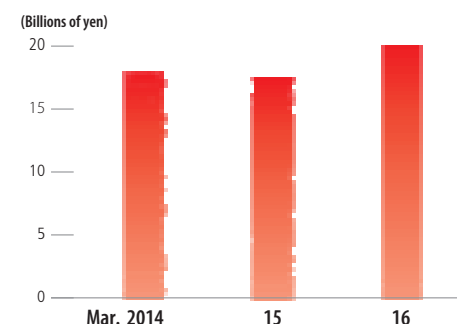
To drive sales growth, in April 2015 we rolled out *Platinum Care S.E. Lotion* containing *S.E.* focused on antiglycation in addition to moisturizing to help bring out the skin's potential. We followed this with the release in November 2015 of the updated *Parabio* series, which was entirely revamped with more advanced lamellar particles, a moisturizing agent embodying our research results on lactic acid bacteria and skin structure that we have built up over the years.

These efforts enabled cosmetics operations overall to generate higher earnings than in the previous fiscal year.

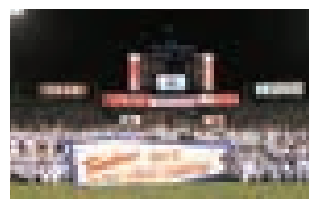
In our professional baseball team operations, the Tokyo Yakult Swallows won the Central League Championship in the regular season and advanced to the Nippon Series. Revenues and attendance at Tokyo's Jingu Stadium rose from the previous fiscal year, bolstered by a variety of fan appreciation events and active information dissemination.

As a result, the Others segment saw net sales increase 14.2%, to ¥20.3 billion.

Net Sales of Others



Parabio

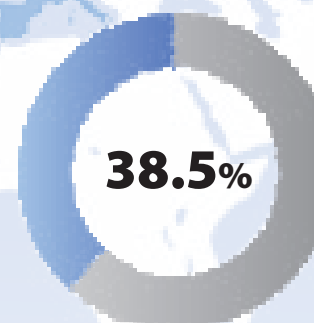


The Tokyo Yakult Swallows won the Central League Championship

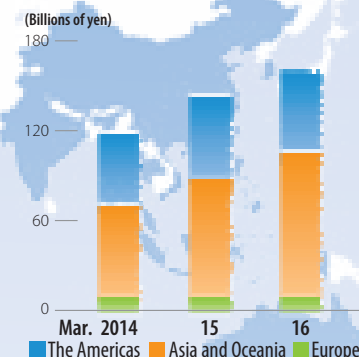
INTERNATIONAL BUSINESS

Overseas, we are developing the Company's Probiotics operations in three regions—the Americas, Asia and Oceania, and Europe—with the goal of establishing Yakult as a truly global brand. As of March 31, 2016, Yakult Probiotic drinks and other products are sold in 32 countries and regions, excluding Japan, with an average of 26.48 million bottles sold per day during the year under review. For the fiscal year ended March 31, 2016, the International Business recorded net sales of ¥158.5 billion.

Percentage of Net Sales by Region (%)



Net Sales



The Americas

Brazil, Uruguay, Mexico, Belize, the United States, Canada



Brazil



Mexico



United States



Brazil

In the Americas, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico and the United States.

During the fiscal year under review, we worked to strengthen our sales structure in the home delivery and retail store channels to boost market share.

In Mexico, as low sugar and low-fat foods have increased in popularity, coupled with rising health awareness, we replaced the drinkable yogurt *Soful* with

Review of Operations

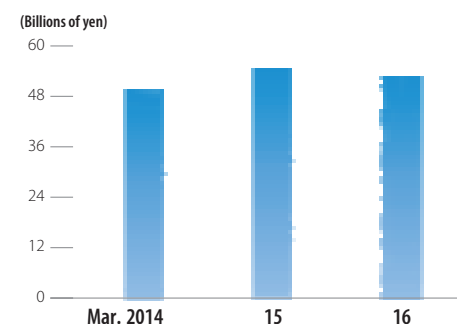
the reduced calorie *Sofú LT* from August 2015.

Net sales in the Americas decreased to ¥52.7 billion, down 3.5%, from the prior fiscal year.



United States

Net Sales in the Americas



Asia and Oceania

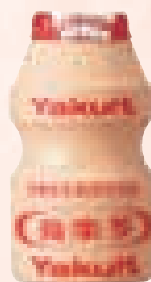
Taiwan, Hong Kong, Thailand, South Korea, the Philippines, Singapore, Brunei, Indonesia, Australia, New Zealand, China, Malaysia, Vietnam, India



Indonesia



Hong Kong



China



Australia

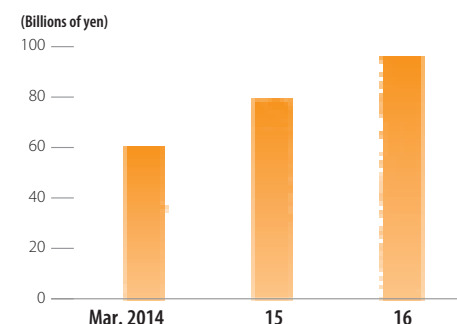


Malaysia



Malaysia

Net Sales in Asia and Oceania



In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China and other countries.

In China, in line with the increase in the sales volume of *Yakult*, we started production of Yakult at Wuxi Plant

(Wuxi Yakult Co., Ltd.) in June 2015, following the establishment of plants in Guangzhou, Shanghai and Tianjin. In addition, *Yakult Light*, a low-calorie version of *Yakult*, was launched by Guangzhou Yakult Co., Ltd. in October 2015 as well as by Yakult (China) Corporation and Shanghai Yakult Co., Ltd. in January 2016.

In the United Arab Emirates (UAE), we established Yakult Middle East FZE in September 2015 and are making preparations for sales of *Yakult*.

Net sales in Asia and Oceania increased to ¥97.1 billion, up 22.7%.



China (Shanghai)

Europe

The Netherlands, Belgium, France, Luxembourg, Switzerland, the United Kingdom, Ireland, Germany, Spain, Austria, Italy, Malta



The Netherlands



Belgium



United Kingdom



Germany



Italy



Belgium

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy and other countries.

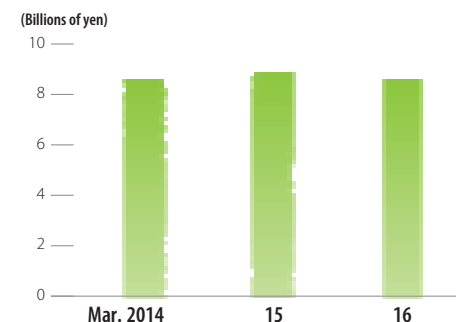
In the European Probiotics market, which remains affected by the challenging economic environment, we have continued to face competition from other companies.

In Switzerland, we have received approval from the Swiss Federal Office of Public Health (FOPH) for the

health claim that “*Yakult* contributes to the normal functioning of the intestine by improving stool consistency and reducing transit time.” With this authorization, we will strive to further the spread of *Yakult* and other products in the country.

Net sales in Europe decreased to ¥8.6 billion, down 3.0% from the prior fiscal year.

Net Sales in Europe



CSR Activities

As a Probiotics pioneer, Yakult believes it can fulfill its social responsibilities by putting into practice its corporate philosophy of “We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular.” This is accomplished through the principles of Shirota-ism, which we have followed since the Company’s foundation. Moreover, given the critical situation of the global environment, we recognize that it is extremely important for us to create a resource-recycling, sustainable society and that this is one of the responsibilities we must fulfill.



The Environment

For Realizing a Sustainable Environment The Yakult Basic Policy on the Environment

Yakult Honsha established an organization for environmental measures in 1991, and enacted the Yakult Basic Policy on the Environment for the entire Yakult Group in 1997. We have also set forth our environmental philosophy, which reads, “Yakult understands that protecting the earth’s environment is one of the most important aspects of coexistence with society and it is committed to considering the need to protect the environment in all of its corporate activities,” and have specified an environmental action agenda made up of seven provisions, including “We shall promote the reduction of environmental burdens considering not only the environment but also biodiversity, for all business activities.”

In accordance with the Basic Policy on the Environment, we have drafted new versions of the “Yakult Environmental Action Plan” at three-year intervals since the fiscal year ended March 31, 2002, and all of the Yakult Group’s business units have been moving ahead with measures to reduce the Group’s environmental impact.

Yakult Sustainable Ecology 2020

Yakult has framed its image for the environment it aims to achieve over the long term in the form of Yakult Sustainable Ecology 2020. This describes the future vision of Yakult with three elements, including the realization of a low-carbon society, efficient use of resources, and efforts to preserve biodiversity, and emphasizes coexistence with stakeholders and the development of a sustainable society.

In the fiscal year ended March 31, 2016 (fiscal 2015), Yakult carried on its initiatives from the previous year, continuing to introduce renewable energy with solar power generation and other forms, implementing greenhouse gas reduction efforts at dairy product plants and in logistics operations, striving to achieve zero waste emissions, and promoting fuel conversion.

Efforts to Preserve the Earth’s Environment

On May 22, 2015, proclaimed the “International Day for Biological Diversity” by the United Nations, the Yakult Group participated in Green Wave 2015, a world-wide tree-planting campaign. The Group planted trees in 14 locations throughout Japan.

In addition, Yakult Honsha supports the activities of the C. W. Nicol Afan Woodland Trust to restore forests replete with biodiversity in Shinano Town, Nagano Prefecture, assists it as an official sponsor, and conducts forest preservation activities in cooperation with the foundation, Nagano Prefecture, and Shinano Town.

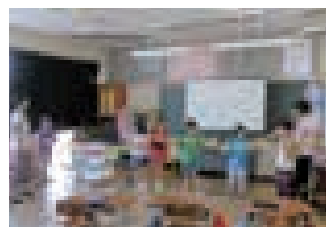


Community Activities

Dispatching Lecturers

Besides supplying products that promote good health, Yakult seeks to realize the benefits of Shirota-ism concepts by providing health-related information to people in local communities. Yakult Honsha branches and marketing companies in each region of Japan dispatch lecturers to primary schools and other locations, where they use scale models and other instructional tools to provide easy-to-understand information about the important role of the intestines and the importance of healthy eating habits conducive to good bowel functions. This approach has been evaluated highly,

and has been published as a good example in the *Journal of Japanese Society of Shokuiku*. During the fiscal year under review, Yakult conducted around 2,800 lectures for more than 190,000 participants nationwide. Lectures are also being given overseas in such places as Hong Kong, Thailand, Malaysia, India and China.



Voice

Lecturers Now Dispatched Across Japan, with over 190,000 Participants in Fiscal 2015

Noriko Ebisawa

Registered Dietician, Senior Staff in charge of Public Relations, General Affairs Section, Metropolitan Branch, Yakult Honsha Co., Ltd.

"The plant tour I went on as an elementary school student was a wonderful, unforgettable memory for me," says Noriko Ebisawa. "Yakult does not have plants in every region, so everyone got together and came up with an experience-based program using models and getting the children to make presentations with the aim of making sure that the time spent in the classes performed by dispatched lecturers is as fun as the plant tours. We are pleased that the lectures have been well received for being easy to understand, enjoyable and for enabling quieter children to actively participate. We have received requests for the lectures from more than 10% of the elementary schools in the Tokyo metropolitan area, and staff from Yakult marketing companies head to these schools to give the lectures.

Initiatives by the Yakult Ladies

Since 1972, the Yakult Ladies have been carrying out "Courtesy Visit Activities," which entail checking on the well-being of elderly people living alone and chatting with them while delivering Yakult products. Since September 2005, as part of this initiative, the Yakult Ladies have presented elderly people living on their own with flowers and a message card on Respect for the Aged Day. It was the 11th instance of this program for fiscal 2015, which has brought such joy to both the Yakult Ladies presenting the flowers and elderly recipients alike. The Yakult Ladies also contribute to

safety and peace of mind in local communities by organizing crime prevention and safety patrols and maintaining contact with the police and local governments.



Public Access to Plants: Festivals and Tours

Aiming to deepen friendly relations with local communities, we annually organize festivals at each plant and invite the members of local communities to participate. During the fiscal year under review, five Yakult Honsha plants and four bottling companies held festivals, attended by a total of approximately 20,000 people.

In addition, with the objective of deepening understanding of Yakult's products and the Group's commitment to environmental awareness and products that are safe and offer peace of mind, we actively offer tours of each plant. We offer plant tours to members of the general public ranging from children to the elderly as well as such programs as sociology and environmental education programs for primary school students, and we also seek to use such tours to obtain feedback information from opinion leaders and people with a particularly strong interest in health issues. During fiscal 2015, six Yakult Honsha plants, including the Shonan Cosmetics Plant, and five bottling companies hosted approximately 210,000 people. Plant tours are also actively conducted at overseas facilities in such places as Hong Kong, the Philippines, Singapore, Indonesia, Malaysia, Vietnam, India, China, the United States, Mexico, Brazil and Europe, with approximately 450,000 people visiting our plants overseas.



Primary school children enjoy a journey through the "intestinal tunnel" (from the entrance in the shape of a mouth to the exit like a bottom), where they learn about the mechanism and function of the stomach and intestines in a fun way. (Fukushima Plant)

Corporate Governance

1. Basic Stance

Our basic stance on corporate governance is to promote highly transparent management that is committed to the steady development of operations in our core business domain.

Our corporate philosophy is "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." In pursuing this philosophy, we believe it is important to implement transparent management with an emphasis on well-developed internal control functions. This includes efforts to ensure an appropriate management organization and decision-making processes. Corporate governance at the Company is also underpinned by the "company with Audit & Supervisory Board Members" system.

2. Capital Composition

The distribution of ownership among shareholders (on a number of shares basis) and major shareholders is as follows:

Distribution of Ownership Among Shareholders

(As of March 31, 2016)



Major Shareholders

(As of March 31, 2016)

	Percentage of total shares issued
Barclays Bank PLC, Singapore Nominee/Danone Probiotics Private Ltd.	20.02%
Fuji Media Holdings, Inc.	3.69
Mizuho Trust & Banking Co., Ltd. (retirement benefit trust (Mizuho Bank Account))	2.82
Matsusho Co., Ltd.	2.80
Kyoshinkai	2.54
Japan Trustee Services Bank, Ltd. (Trust account)	1.60
Kirin Beverage Corporation	1.40
The Master Trust Bank of Japan, Ltd. (Trust account)	1.36
Mizuho Bank, Ltd.	1.24
Teruo Nakamura	1.15

Note: In addition to the above, the Company holds 10,548,455 shares (6.00%) of its own shares.

3. Governing Bodies, Organizational Operations and Operational Execution

Board of Directors

The Board of Directors is composed of 15 directors, including four outside directors, and holds meetings in principle seven times each year, in addition to convening special meetings as needed. The seven Audit & Supervisory Board Members also attend meetings. The Board of Directors deliberates on matters within its jurisdiction as defined by law and company rules, and is responsible for supervising the status of business execution.

The Company introduced the Executive Officer System in June 2011. This system strengthens the decision making of the Board of Directors and business supervision functions, and clarifies responsibilities for business execution, thereby increasing the efficiency of these functions.

As a system of support for outside directors, the General Affairs Department functions as the secretariat for the Board of Directors, and serves in this capacity as a point of contact for all Company officers, including outside directors.

The four outside directors are listed in the chart below.

(As of June 22, 2016)

Name	Outside Positions as Representative	Reason for Appointment as Outside Director
Ryuji Yasuda	Professor, International Business Strategy, Graduate School of International Corporate Strategy, Hitotsubashi University; Outside Director, Daiwa Securities Group Inc.; Outside Director, Fukuoka Financial Group, Inc.; Outside Director, The Bank of Fukuoka, Ltd.; Outside Director, ORIX Corporation; Outside Director, Benesse Holdings, Inc.; Outside Auditor, the Asahi Shimbun Company	Mr. Yasuda was appointed on the expectation that he would offer pertinent advice regarding the overall management of the Company that would further strengthen and enrich its management structure based on the expertise in business strategy he has accumulated over the years in wide-ranging positions including those of university professor, consultant and business manager.
Masayuki Fukuoka	Professor, Faculty of Law, Hakuoh University; specially approved visiting Professor, Tohoku Fukushi University; Secretary General, Assist (Japan)	Mr. Fukuoka was appointed on the expectation that he would offer objective views to the Company's management that would lead to further reinforcement and enhancement of the management structure based on his expertise and experience as a university professor of political science studies. While he has no experience of direct involvement in management of a company except as an outside officer, the Company believes that he will be able to perform the duty of outside director appropriately for the above reason.
Bertrand Austruy	General Secretary and member of Executive Committee, Danone S.A.	Mr. Austruy was appointed on the expectation that he would offer pertinent advice from a broad perspective regarding overall management, which would lead to further strengthening and enhancement of the management structure based on his abundant overseas management experience.
Filip Kegels	Vice-President at Danone, Dairy Division for Asia-Pacific India and Middle East and Non-Executive Chairman at Danone, Dairy Division for China and Japan; Director at China Mengniu Dairy Co., Ltd.	Same as above.

Management Policy Council and the Executive Officers Committee

The Company has established a set of meetings, the Management Policy Council and the Executive Officers Committee, designed to promote effective management activities and accelerate decision making. These meetings are, in principle, convened on a weekly basis.

Audit & Supervisory Board Members

The Company has seven Audit & Supervisory Board Members, including five outside Audit & Supervisory Board Members. All Audit & Supervisory Board Members attend meetings of the Board of Directors and other important company meetings and audit the operational execution of the directors by examining documents related to decision making and other matters. The Audit

& Supervisory Board Members strive to enhance the effectiveness of their audits by forging close ties with the Internal Audit Department and the accounting auditor.

The system of support for the Audit & Supervisory Board consists of staff assigned exclusively to the Audit & Supervisory Board Members that functions as the secretariat for the board. Furthermore, the Audit & Supervisory Board convenes prior to meetings of the Board of Directors and other important meetings to discuss the proposed agenda for the meetings, and to share information gathered from materials provided by relevant department and division heads, as well as information gained from explanations received firsthand and by other means. Furthermore, with respect to systems for conveying information to outside Audit & Supervisory Board Members, the full-time Audit & Supervisory Board Members issue progress reports on a regular basis, and provide the outside Audit & Supervisory Board Members with a range of materials, including those from important company meetings and decision making and audit-related materials.

The five outside Audit & Supervisory Board Members are listed in the chart on the right.

Name	Outside Positions as Representative	Reason for Appointment as Outside Audit & Supervisory Board Member
Akihiko Okudaira	Lawyer	Mr. Okudaira was appointed on the expectation that his expertise as a lawyer and abundant experience would be reflected in auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure. While he has no experience of being directly involved in the management of a company except as an outside officer, the Company believes that he will be able to continue to perform the duty as an outside Audit & Supervisory Board Member appropriately for the above reason.
Seijuro Tanigawa	President of Yakult Kobe Sales Co., Ltd.	Mr. Tanigawa was appointed on the expectation that his long record of managing a Yakult sales company would be an advantage when performing audit operations primarily on the legality of the directors' execution of duties, thus contributing significantly to the development of the entire Yakult Group.
Setsuko Kobayashi	Chairperson of Yakult Joetsu Sales Co., Ltd.	Same as above.
Kouichi Yoshida	Chairman of Yakult Ishinomaki Sales Co., Ltd.	Same as above.
Seno Tezuka	Certified Public Accountant	Mr. Tezuka was appointed on the expectation that his expertise as an accountant and abundant experience in corporate accounting would be reflected in auditing of the Company that would lead to further reinforcement and enhancement of the Company's management structure. While he has no experience of being directly involved in the management of a company except as an outside officer, the Company believes that he will be able to continue to perform the duty as an outside Audit & Supervisory Board Member appropriately for the above reason.

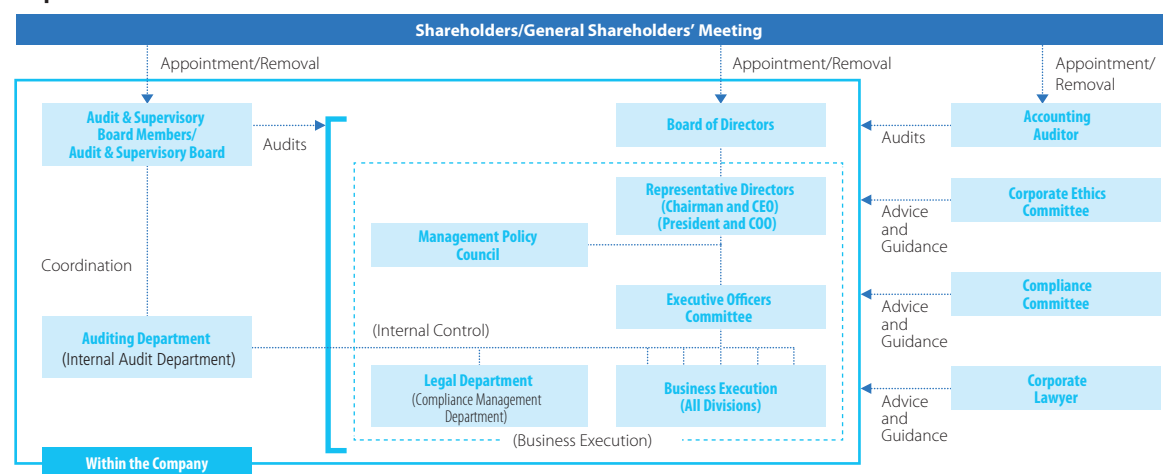
Internal Audits

Internal audits are conducted by the Auditing Department, an organization that reports directly to the Company's President and that performs financial and operational audits, including those of Group companies in Japan and overseas. The head of the Auditing Department currently oversees a 14-member staff responsible for risk avoidance and other internal audit functions. These personnel conduct internal audits spanning the operations of all internal departments and Group companies, as well as issuing concrete advice and warnings with respect to operational improvements.

Accounting Auditor

The Company has appointed Deloitte Touche Tohmatsu LLC to serve as the accounting auditor for the audit of its business accounts as required by law. Compensation is paid to the accounting auditor based on an auditing contract signed with Deloitte Touche Tohmatsu.

Corporate Governance Framework



Corporate Governance

4. Internal Control Systems and Policies

The Company resolved at the Board of Directors' meeting on May 19, 2006 to establish an internal control system as mandated for a large company with a Board of Directors by the Companies Act and its enforcement regulations. The Company revises the details of this resolution promptly in response to changes inside and outside the Company. At the current time, the details are as follows:

The Company aims to proceed with its business activities in accordance with its corporate philosophy, "We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular." To achieve this, the Company believes that it is important to implement management that places emphasis on strengthening and enhancing internal control functions as a company that is widely trusted by society.

Based on this perspective, the Company has made the following resolutions on basic policies regarding building internal control systems after reconfirming the current situation at the Company in relation to the development of internal control systems.

Meanwhile, the contents of the resolutions will be revised on a timely basis in line with revisions to laws and environmental changes inside and outside the Company, aiming to further strengthen and enhance internal control systems.

5. Other Corporate Governance Systems

(1) Basic approach regarding timely disclosure

- With respect to information disclosure, especially in a timely manner, in the Yakult Code of Ethics and Code of Practice, the Company makes the following commitment: "The Company will actively disclose all relevant information to all stakeholders, including our customers, shareholders, employees, business partners, local communities, industry groups, government, and non-profit organizations, and increase the transparency of management, to gain the full trust of society through our corporate activities." Based on this approach, the Company is disclosing information in a timely manner.

(2) Internal structure related to timely disclosure

- Facts and data appropriate for public disclosure from each department within the Company (including subsidiaries) are

i) Systems to ensure that the performance of duties by directors and employees complies with laws and articles of incorporation

As standards for executives and workers to properly perform business activities, the Company has established the Yakult Code of Ethics and Code of Practice. The Yakult Code of Ethics and Code of Practice have been distributed to all persons concerned, aiming to familiarize them with the details of the codes. At the same time, the Company is continuously offering in-house training programs regarding compliance.

In addition, a meeting of the Compliance Committee, which consists of external knowledgeable persons, is held on a regular basis to receive advice regarding the development of the Company's compliance system.

Furthermore, the Company has established an "internal reporting system," aiming to improve the self-cleaning functions by which it detects its own violations of law and takes corrective actions.

In addition, the Company will resolutely block and repudiate anti-social forces that pose a threat to business activities. We will also maintain a close relationship with the police under normal circumstances. At the same time, we will endeavor to supervise transactions through the Corporate Ethics Committee, which consists of external experts as the main committee members, and will tackle any unreasonable claims organizationally and take all possible legal measures.

ii) Systems regarding preservation and management of information related to the performance of duties by directors

Minutes of general shareholders meetings and Board of Directors meetings are preserved properly in accordance with law.

In addition, in line with the Rules for Handling Documents, information related to the performance of duties by directors is recorded and preserved in documents or electromagnetic media (hereinafter referred to as "documents and other media").

Directors and Audit & Supervisory Board Members can look through the minutes and the documents and other media at any time.

Furthermore, the Rules for Handling Documents include rules regarding maintaining confidentiality and taking preventive measures against information leakage.

iii) Rules and other systems regarding the management of risks for losses

The Administrative Division plays a central role in supervising the conditions of cross-sectional risk and making company-wide responses. The department concerned handles the management of risks related to the operations of each department.

In addition, to respond to crises that appear suddenly, there are the Risk Management Rules, which include a rule to have the Company's President or divisional managers serve as the head of various task forces set up in accordance with the details of crisis situations.

Furthermore, to provide safe products to customers and establish a quality assurance system, the Quality Assurance Committee has been established and its meetings are being held. In addition, the Food &

Beverages Quality Assurance Department has been established as an independent department to carry out exclusive company-wide supervisory operations related to food quality assurance.

iv) Systems to ensure that the performance of duties by directors is efficient

The Company has introduced the Executive Officer System to strengthen the functions of the Board of Directors to make decisions and supervise as well as to define the responsibilities in executing operations, and ultimately to improve the efficiency of these functions.

In addition, the Company's decision-making methods are stipulated in the Rules for Decision-Making, aiming to make decisions in line with the level of importance. At the same time, a management policy meeting and the Executive Officers Committee are held every week in principle, aiming to speed up decision making.

Moreover, to carry out business operations efficiently, the organizational structure of the Company and its management standards are stipulated in the Organization Rules and the Table of Division of Duties.

v) Systems to ensure that operations at the corporate group consisting of the Company and subsidiaries are appropriate

The Company seeks to ensure that operations at its subsidiaries are appropriate and efficiently executed by sending its executives or employees to the subsidiaries and having them serve as executives of the subsidiaries.

In addition, the Rules for the Management of Affiliates and the Rules for the Management of Overseas Operations include provisions to require the subsidiaries and affiliates to obtain advance approval and provide reports. At the same time, the Auditing Department, which is the Company's internal auditing department, carries out audits.

Furthermore, the Company has secured the appropriate operations throughout the Group by drawing up the Group's strategies and targets in the medium-term management plan as well as establishing an internal support system by setting up a department in charge of the management of the subsidiaries, in addition to implementing training and education programs for its subsidiaries. At the same time, the Rules for the Risk Management include provisions to respond to any crisis that develops suddenly occur throughout the Group.

vi) Matters regarding employees who support the duties of Audit & Supervisory Board Members in cases in which Audit & Supervisory Board Members make a request to assign such employees

Employees who have a thorough knowledge of the Company's business operations and can properly support the duties of Audit & Supervisory Board Members serve as full-time staff members who support Audit & Supervisory Board Members. In terms of the organizational structure, the staff members serve as "auditing officers" and are independent of the Auditing Department, which is an internal auditing department. They carry out operations under the direct supervision of Audit & Supervisory Board Members.

compiled by the Public Relations Department. In parallel, each department within the Company, pursuant to the Rules for Decision-Making, decides items for disclosure based

vii) Matters regarding the independence of employees who support the duties of Audit & Supervisory Board Members, who are mentioned in the previous item, from directors, and systems to ensure the effectiveness of instructions given to these employees by Audit & Supervisory Board Members

To secure the independence and effectiveness of instructions of full-time employees who support the duties of Audit & Supervisory Board Members from directors, such employees do not belong to any department in the organization and are not under the supervision of directors.

In addition, full-time Audit & Supervisory Board Members directly evaluate the performance of such employees to respect their independence.

viii) Systems for directors and employees to provide reports to Audit & Supervisory Board Members and other systems regarding reports provided to Audit & Supervisory Board Members

Audit & Supervisory Board Members attend Board of Directors meetings and other important meetings and read minutes of such meetings on an as-needed basis. In addition, Audit & Supervisory Board Members confirm the details of important requests. There is a system in which Audit & Supervisory Board Members can be apprised of the details of such requests.

Furthermore, reports regarding the results of internal audits of the Company and subsidiaries are provided to Audit & Supervisory Board Members on a regular basis. The Rules for Audits by Audit & Supervisory Board Members also stipulate that Audit & Supervisory Board Members can request directors to provide business reports and request related departments, subsidiaries, and other parties to provide reports if necessary.

ix) Systems to ensure that reporting parties do not receive unfair treatment as a result of such reports

The Company prohibits any retaliation against the directors and employees who provide reports to Audit & Supervisory Board Members as a result of such reports. At the same time, the Rules for the Internal Reporting System include provisions to prohibit any other actions or behavior that infringe the whistleblower's rights.

x) Other systems to ensure that audit operations of Audit & Supervisory Board Members are carried out effectively

The Rules for Audits by Audit & Supervisory Board Members ensure that Audit & Supervisory Board Members effectively exercise the authority to "attend Board of Directors meetings and other important meetings," "ask for explanations in cases of failure to attend meetings and read minutes and documents," "read documents necessary to investigate business conditions and request related departments to provide reports," and "request subsidiaries and affiliates to provide reports and investigate business and asset conditions."

In addition, they can hear opinions from lawyers, certified public accountants, consultants, and other outside experts if necessary. Expenses related to hearing such opinions from these outside experts and other audits are the responsibility of the Company.

Board of Directors and Audit & Supervisory Board Members

on prescribed decision-making procedures. Facts and data not vetted in this manner are not publicly disclosed. When making final decisions, the disclosing department liaises with the General Affairs Department, the body responsible for coordinating timely disclosure, as it moves decision-making procedures forward, during which time a determination is made of the necessity for timely disclosure. The General Affairs Department refers to two standards in making this determination: the Rules for Timely Disclosure and the status of other finalized disclosure decisions within the Company. The decision is then made to officially conduct the timely disclosure of facts and data meeting these criteria.

- The Company is listed on the Tokyo Stock Exchange (TSE). Any information from the Company marked for timely disclosure is registered on TDnet, a system for timely disclosure provided by the TSE. The registration of information for timely disclosure and responses to inquiries from TSE personnel are conducted by the General Affairs Department, the body responsible for coordinating timely disclosure. Following registration, information targeted for timely disclosure is quickly transmitted simultaneously to all relevant media outlets, with related materials disclosed at the same time on the Company's website.

(3) Check functions to mitigate risks associated with the improper execution of timely disclosure

- The Company has considered a variety of risk scenarios, including those in which information marked for timely disclosure is inadvertently overlooked; information is prematurely disclosed; and data pertaining to sudden crises are not promptly disclosed. A single department, the General Affairs Department, which is responsible for coordinating timely disclosure, acquires and shares information about the criteria for determining the necessity of timely disclosure, and checks information pertaining to final decisions made internally, as well as primary information when sudden crises and incidents arise. This configuration allows check functions to work and enables timely disclosure without any omissions.

Chairman and Representative Director Chief Executive Officer



Sumiya Hori

President and Representative Director Chief Operating Officer



Takashige Negishi

Directors



Yoshihiro Kawabata
*Divisional General Manager of
Administrative Division, and
International Business Division*



Hiroshi Narita
*Divisional General Manager of Food
and Beverages Division*



Masanori Ito
*Divisional General Manager of
Pharmaceuticals Business Division*



Hiroshi Wakabayashi
*Divisional General Manager of
Management Support Division*



Fumiyasu Ishikawa
*Divisional General Manager of Research
& Development Division, and Production
Division*



Masaki Tanaka



Richard Hall

Chairman and Representative Director Chief Executive Officer

Sumiya Hori

President and Representative Director Chief Operating Officer

Takashige Negishi

Directors

Yoshihiro Kawabata

Hiroshi Narita

Masanori Ito

Hiroshi Wakabayashi

Fumiyasu Ishikawa

Masaki Tanaka

Richard Hall

Directors (Part-Time)

Ryuji Yasuda

Masayuki Fukuoka

Bertrand Austruy

Filip Kegels

Takashi Matsuzono

Norihito Maeda

Senior Audit & Supervisory Board Members

Akinori Abe

Hiroshi Yamakami

Audit & Supervisory Board Members

Akihiko Okudaira

Seijuro Tanigawa

Setsuko Kobayashi

Koichi Yoshida

Seno Tezuka

(As of June 22, 2016)

Financial Section

Consolidated Five-Year Summary

YAKULT HONSHA CO., LTD. and its subsidiaries
Years ended March 31, 2016, 2015, 2014, 2013, and 2012

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2012	2013	2014	2015	2016	2016
For the year:						
Net sales	¥ 312,553	¥ 319,193	¥ 350,322	¥ 367,980	¥ 390,412	\$3,485,827
Selling, general and administrative expenses.....	149,214	148,581	161,965	168,092	178,744	1,595,931
Operating income	20,817	23,068	32,026	34,898	40,057	357,653
Net income attributable to owners of the parent	13,292	16,379	22,544	25,056	28,843	257,528
Research and development costs	12,414	10,761	11,166	12,135	12,678	113,195
Capital investments	25,007	33,587	50,163	40,371	27,403	244,667
Depreciation and amortization	18,337	19,435	20,078	22,793	24,365	217,543
At the year-end:						
Total assets.....	¥ 397,214	¥ 438,176	¥ 519,571	¥ 579,345	¥ 577,535	\$5,156,560
Net property, plant and equipment.....	136,963	150,612	184,208	205,595	201,799	1,801,774
Total liabilities.....	144,971	151,077	211,538	217,132	212,070	1,893,481
Total equity	252,243	287,099	308,033	362,213	365,465	3,263,079
	Yen					U.S. dollars (Note 2)
Per share of common stock:						
Basic net income	¥ 77.32	¥ 95.03	¥ 134.44	¥ 151.58	¥ 174.54	\$ 1.56
Total equity (Note 7)	1,328.61	1,517.88	1,662.37	1,966.13	2,007.73	17.93
Cash dividends applicable to the year	22.00	23.00	24.00	25.00	50.00	0.45
Financial ratios:						
Return on equity (ROE) (%)	5.8	6.7	8.4	8.4	8.8	
Equity ratio (%)	57.6	59.8	52.9	56.1	57.5	

Notes: 1. Figures are rounded to the nearest million.

2. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥112 to U.S.\$1, the approximate rate of exchange on March 31, 2016.

3. Noncontrolling interests are not included in equity for the calculation.

Financial Section

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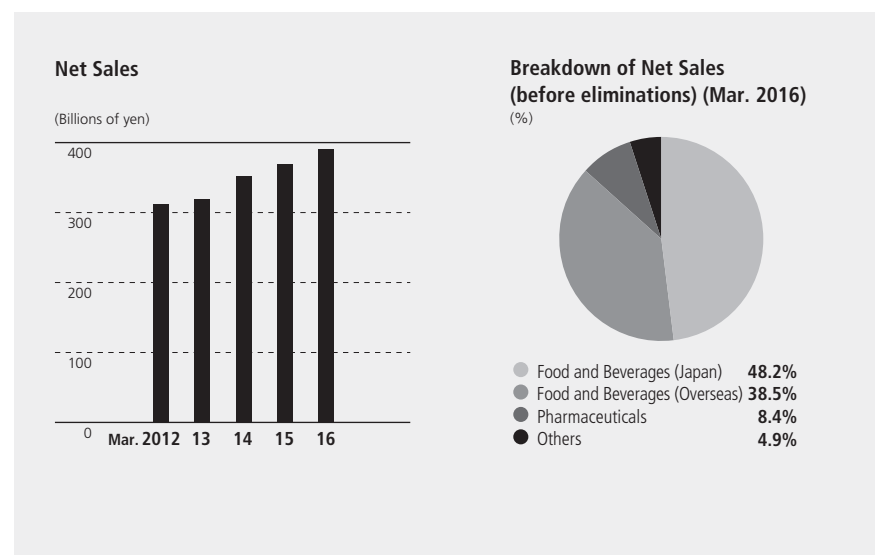
Management's Discussion and Analysis

OVERVIEW

During the fiscal year ended March 31, 2016, the Japanese economy continued a gradual recovery with an improvement in corporate earnings and employment conditions. At the same time, uncertainty over the global economy increased, partly due to the most recent impact of negative economic effects from Asian emerging countries and resource-rich countries.

Against this background, the Yakult Group (the "Group") worked to build awareness and understanding of the Probiotics that constitute the bedrock of our operations, while striving to communicate the superiority of its products. (Probiotics are the living microorganisms that provide health benefits by improving the balance of intestinal flora.) The Group also sought to improve its performance by taking steps to shore up its sales organization, develop new products, upgrade its production facilities, and vigorously enhance its overseas operations and pharmaceuticals business.

As a result of these efforts, on a consolidated basis, net sales advanced 6.1% from the previous fiscal year, to ¥390.4 billion. Operating income jumped 14.8%, to ¥40.1 billion, while the operating margin rose to 10.3%, up 0.8 percentage points from the previous year. Consequently, net income attributable to owners of the parent climbed 15.1%, to ¥28.8 billion, and the return on sales increased to 7.4%, up 0.6 percentage points from the previous year's result.



SALES, COSTS, EXPENSES, AND EARNINGS

SALES

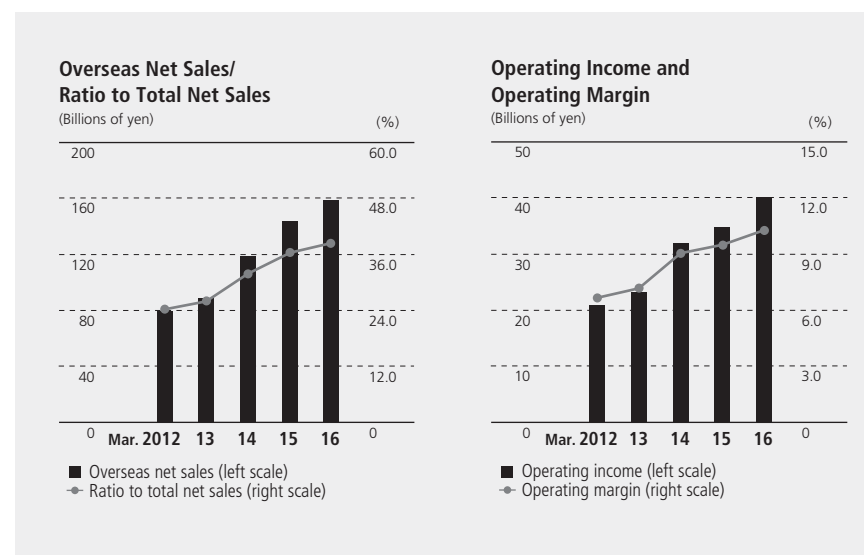
Net sales rose 6.1%, to ¥390.4 billion.

Looking at net sales by reporting segment (before reconciliation), Food and Beverages (Japan) accounted for 48.2% of sales, down 2.3 percentage points from the previous fiscal year. Food and Beverages (Overseas) accounted for 38.5% of sales, up 1.9 percentage points. Pharmaceuticals generated 8.4%, up 0.1 percentage points, and Others contributed 4.9%, up 0.3 percentage points.

COSTS, EXPENSES, AND EARNINGS

Consolidated cost of sales increased by 4.0%, to ¥171.6 billion. As a result, the cost of sales ratio decreased by 0.8 percentage points, to 44.0%. Gross profit rose by 7.8%, to ¥218.8 billion, and the gross profit margin expanded 0.8 percentage points, to 56.0%.

Selling, general and administrative (SG&A) expenses increased by 6.3%, to ¥178.7 billion. This result mainly reflected higher advertising and personnel expenses accompanying the expansion of the Group's operations. The SG&A expense ratio rose by 0.1 percentage points, to 45.8%. R&D expenses expanded by ¥0.5 billion year on year, to ¥12.6 billion. As a percentage of net sales, R&D expenses fell 0.1 percentage points, to 3.2%.



As a result, operating income jumped 14.8%, to ¥40.1 billion, and the operating margin rose 0.8 percentage points, to 10.3%.

Other income—net amounted to ¥9.7 billion, down ¥0.5 billion from a year earlier, mainly due to a decrease in foreign exchange gain.

Income taxes amounted to ¥15.1 billion.

Consequently, net income attributable to owners of the parent increased by 15.1%, to ¥28.8 billion, and the return on sales rose 0.6 percentage points, to 7.4%.

OVERVIEW BY SEGMENT

FOOD AND BEVERAGES (JAPAN): In Probiotic products, Yakult focused on broadening the recognition of the scientific elements and value of its proprietary living *Lactobacillus casei* strain Shirota, and vigorously expanded value dissemination activities using evidence-based approaches. For the 80th anniversary of our foundation, we also worked to further strengthen relationships with customers mainly through the 80th Anniversary Thanks Campaign, held in April 2015 to express Yakult's appreciation to customers.

By product, the drinkable yogurt *Joie* series was the subject of both an update and price revision in June 2015. In addition, we increased sales by introducing creative *Joie* packages featuring Disney characters under a license agreement with Walt Disney Company (Japan) Ltd. In March 2016, we updated fermented milk products *Mil-Mil* and *Mil-Mil S* and revised the

price of *Mil-Mil*, boosting these products' value and level of freshness.

Through our home delivery channel, our mainstay fermented milk drinks *Yakult 400* and *Yakult 400LT* were at the center of value dissemination activities we undertook to generate new customers for our business. We also worked to bolster our home delivery organization through active use of advertisements including TV commercials featuring Yakult Ladies, to continuously support Yakult Lady hiring activities.

Through our retail store channel, we expanded value dissemination activities carried out by promotion staff geared toward our customers, centered on the fermented milk drinks *New Yakult* and *New Yakult Calorie Half*. In September 2015 we released the *New Yakult Calorie Half 10-Pack* for mass retailers, followed in October by the *New Yakult 6-Pack* for convenience stores in Tokyo and six other prefectures in the Kanto area. In November, we launched the fermented milk drink *Mainichi Nomu Yakult* at Seven-Eleven locations in Tokyo and three other prefectures in the Kanto area, and expanded the sales areas in January 2016.

In juices and other beverages, we updated the nutritional drink *Toughman* series as well as the lactic drink *Milouge* series in May 2015 to vitalize our brands. We also aimed to boost sales through means such as priority delivery to vending machines of the carbonated fruit juice drink *Sappari* series and the water and mineral supplement beverage *Mineral Charge* series.

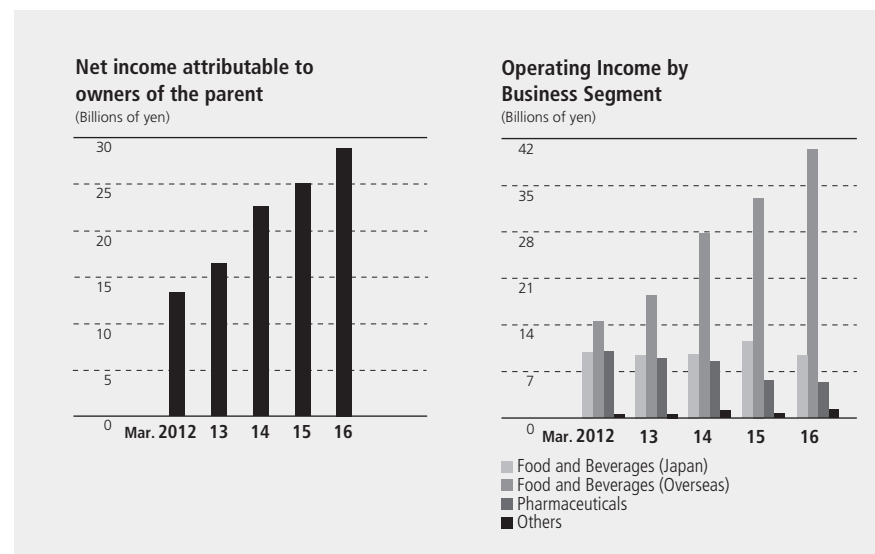
In other developments, the Tokyo Yakult Swallows won the league Championship and went on to play in the Japan Series in October 2015. To demonstrate our appreciation to fans who had shown their support for the team, we issued commemorative dairy products, juices and other beverages.

As a result of our efforts to bolster the sale of our products centered on such initiatives, overall sales of dairy products surpassed those of the previous fiscal year. Sales in the juices and other beverages segment did not increase, however, reflecting sluggish sales growth in the functional drinks market.

Net sales increased to ¥199.0 billion, up 0.9%, from the previous fiscal year, while segment profit decreased 18.0%, to ¥9.5 billion.

FOOD AND BEVERAGES (OVERSEAS): Yakult's overseas operations commenced in March 1964 with the establishment of Yakult Co., Ltd. (Taiwan). They now extend to 32 countries and regions outside Japan, and are centered on 27 business bases and one research center. These operations focus primarily on the production and sale of the fermented milk drink *Yakult*. Average daily sales of all *Yakult* products overseas were approximately 26.59 million bottles in March 2016.

In the Americas, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Brazil, Mexico and the United States.



During the fiscal year under review, we worked to strengthen our sales structure in the home delivery and retail store channels to boost market share.

In Mexico, as low sugar and low-fat foods have increased in popularity, coupled with rising health awareness, we launched the drinkable yogurt *Sofúl LT*, which contains fewer calories than the regular *Sofúl*, after the product was revamped in August 2015.

Net sales in the Americas decreased to ¥52.7 billion, down 3.5%, from the prior fiscal year, and segment profit declined 0.2%, to ¥12.8 billion.

In Asia and Oceania, Yakult manufactures and sells the fermented milk drink *Yakult* and other products in Hong Kong, Singapore, Indonesia, Australia, Malaysia, Vietnam, India, China and other countries.

In China, in line with the increase in the sales volume of *Yakult*, we started production of *Yakult* at a plant in Wuxi (Wuxi Yakult Co., Ltd.) in June 2015, following the establishment of plants in Guangzhou, Shanghai and Tianjin. In addition, *Yakult Light*, a low-calorie version of *Yakult*, was launched by Guangzhou Yakult Co., Ltd. in October 2015 as well as by Yakult (China) Corporation and Shanghai Yakult Co., Ltd. in January 2016.

In the United Arab Emirates (UAE), we established Yakult Middle East FZE in September 2015 to prepare for import and sales of *Yakult*.

Net sales in Asia and Oceania increased to ¥97.1 billion, up 22.7%, from the prior fiscal year, and segment profit jumped 32.3%, to ¥27.0 billion.

In Europe, Yakult manufactures the fermented milk drink *Yakult* and other products in the Netherlands, and sells them in the Netherlands, Belgium, the United Kingdom, Germany, Austria, Italy and other countries.

In the European Probiotics market, which remains affected by the challenging economic environment, we have continued to face competition from our peers.

In Switzerland, we have received approval from the Swiss Federal Office of Public Health (FOPH) for the health claim that Yakult “contributes to the normal functioning of the intestine by improving stool consistency and reducing transit time.” With this authorization, we will strive to further the spread of *Yakult* and other products in the country.

Net sales in Europe decreased to ¥8.6 billion, down 3.0% from the prior fiscal year, and segment profit was ¥0.6 billion (versus a segment loss of ¥0.2 billion in the previous fiscal year).

PHARMACEUTICALS: In Japan, we focused on promoting dissemination of the antineoplastic drug *Elplat* as a standard treatment for unresectable advanced or recurrent colorectal cancer as well as its use in postoperative chemotherapy for colorectal cancer. We also promoted activities recommending the proper use of a FOLFIRINOX regimen for the treatment of metastatic pancreatic cancer, which employs the antineoplastic drugs *Campto* and *Elplat* and the activated folinic acid

drug *Levofolinate Yakult*. Similarly, we expanded the indication of *Elplat*. An additional indication of adjuvant chemotherapy for gastric cancer was approved in November 2015. This supplemental new drug application resulted in constitution of the new indication “gastric cancer,” including an indication of “advanced or recurrent gastric cancer” approved in March 2015. Thereafter, we redoubled efforts to hold lectures and medical office briefings targeting medical professionals to increase the penetration of *Elplat* in the gastric cancer area, and to expand the market share. In addition, we sought higher sales following efforts to intensify sale channels development for antineoplastic antimetabolite *Gemcitabine Yakult*, generic antineoplastic drug *Imatinib Yakult*, osteoclastic inhibitor *Zoledronic acid Yakult*, and *Docetaxel Yakult*, a generic taxoid antineoplastic drug, which was launched in June 2015.

However, these efforts were not sufficient to boost overall sales significantly, due to the switch to the generic drug for *Elplat* by some medical institutions since the generic drug was launched in December 2014.

In R&D, we expedited the development pipeline of oral HDAC inhibitor *Resminostat* by 4SC AG, PI3K/Akt, inhibitor *Perifosine* by Aterna Zentaris Inc., and novel platelet increasing agent NIP-022 (Yakult’s development code: YHI-1501), on which we entered into a co-development and license agreement with Nissan Chemical Industries, Ltd. in October 2015. Through these efforts, we aim to further strengthen our position in the cancer-related field.

As a result, net sales in the Pharmaceuticals segment increased 6.9%, to ¥34.8 billion, while segment profit was ¥5.4 billion, down 8.2% from the prior fiscal year.

OTHERS: This segment encompasses Yakult’s cosmetics operations as well as its professional baseball team operations.

In our cosmetics operations, we continued to expand sales of basic skin care products such as our core brands *Parabio*, *Revey* and *Revey White*, with a focus on home visits to counsel customers on cosmetics, emphasizing the value of our original moisturizing agent, *S.E. (Shirota Essence)*, derived from our research on lactic acid bacteria since the Company’s foundation.

Specifically, we worked to attract new customers by thoroughly implementing sales measures for which themes and key products were set each quarter.

To drive sales growth, in April 2015 we rolled out *Platinum Care S.E. Lotion* containing *S.E.* focused on antiglycation in addition to moisturizing to help bring out the skin’s potential. We followed this with the release in November 2015 of the *Parabio* series, which was entirely revamped with containing lamellar particles, highly evolved moisturizing ingredients embodying our research results on lactic acid bacteria and skin structure that we have built up over the years.

These efforts enabled cosmetics operations overall to generate higher earnings than in the previous fiscal year.

In our professional baseball team operations, the Tokyo Yakult Swallows won the league championship in the regular season and advanced to the Nippon Series. Revenues and attendance Tokyo's Jingu Stadium rose from the previous fiscal year, bolstered by a variety of fan appreciation events and active information dissemination.

As a result, the Others segment saw net sales increase by 14.2%, to ¥20.3 billion, and segment profit jumped 110.0%, to ¥1.4 billion.

FINANCIAL POSITION

Total assets at the fiscal year-end amounted to ¥577.5 billion, declining 0.3% year on year.

Current assets decreased by ¥4.3 billion, or 1.9%, from the prior fiscal year-end, to ¥221.6 billion, principally due to a decline of ¥3.6 billion in inventories.

Net property, plant and equipment fell ¥3.8 billion, to ¥201.8 billion. This primarily reflected a decrease in property, plant and equipment of overseas subsidiaries accompanying yen appreciation.

Investments and other assets rose ¥6.3 billion, or 4.3%, to ¥154.1 billion, mainly due to an increase in investment securities.

During the fiscal year under review, capital investment decreased by 32.1%, to ¥27.4 billion.

Total liabilities fell 2.3%, to ¥212.1 billion. The major component of this decrease was a drop of ¥6.0 billion in long-term debt. As a result, interest-bearing debt declined ¥3.3 billion

from the prior fiscal year-end, to ¥116.4 billion, while the debt-to-equity ratio decreased by 1.7 percentage points, to 35.1%.

Equity increased by 2.1%, to ¥331.8 billion, from ¥325.0 billion a year earlier. This rise was primarily due to an increase in retained earnings despite a decline in foreign currency translation adjustments.

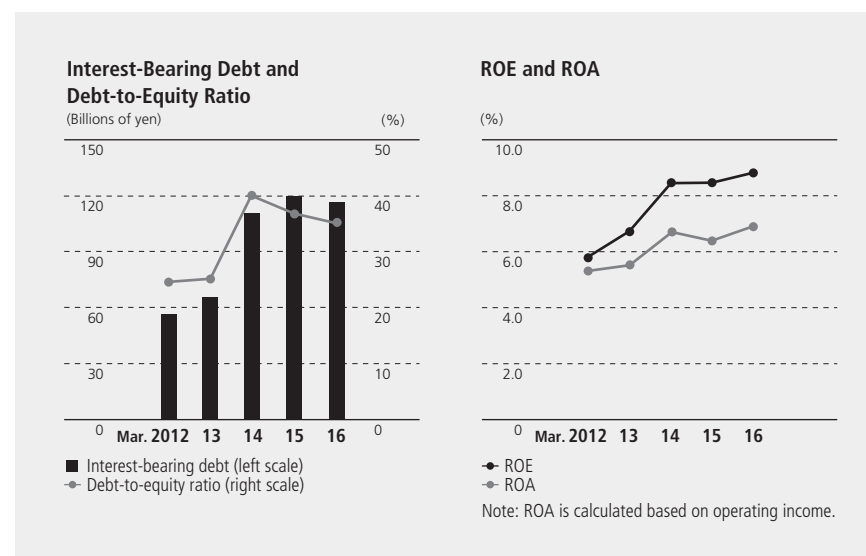
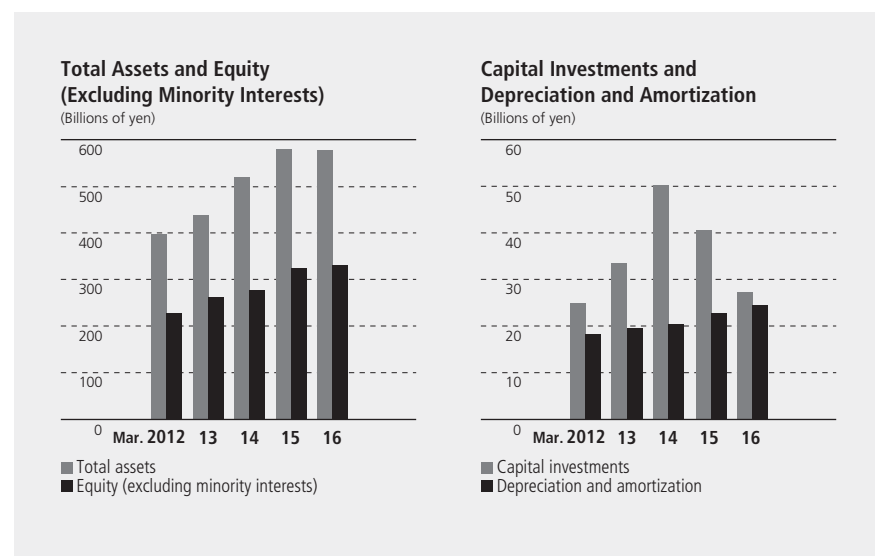
As a result, the equity ratio improved 1.4 percentage points, to 57.5%. Return on equity (ROE) rose 0.4 percentage point, to 8.8%. Return on assets (ROA) increased by 0.5 percentage point, to 6.9%.

CASH FLOWS

Net cash provided by operating activities rose ¥6.7 billion from the previous year, to ¥62.1 billion. This primarily reflected ¥49.7 billion in income before income taxes and ¥24.4 billion in depreciation and amortization, which offset an increase of ¥13.5 billion in income taxes paid.

Net cash used in investing activities decreased by ¥12.6 billion, to ¥37.4 billion. Cash was mainly used for purchases of property, plant and equipment, specifically for the establishment of new production facilities and research equipment.

Net cash used in financing activities amounted to ¥15.0 billion, up ¥13.4 billion from the previous fiscal year. This outlay mainly reflected the payment of dividends in addition to repayment of short-term loans and long-term debt.



Foreign currency translation adjustments amounted to a negative ¥11.3 billion due to foreign exchange fluctuations.

As a result, cash and cash equivalents at the fiscal year-end amounted to ¥101.8 billion, a net decrease of ¥1.6 billion from a year earlier.

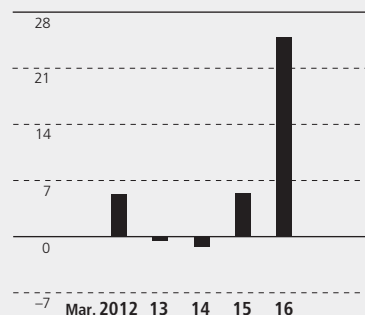
DIVIDENDS

We place top priority to the payment of a stable and continuous dividend to shareholders by setting the annual dividend at a base of ¥20.0 per share. The total dividend is decided based on business performance for the year, after comprehensively taking into account the need for funds for future business expansion and increasing earnings, as well as the Company's financial position.

Based on this policy, we decided to pay a total dividend of ¥30.0 per share, up ¥5.0 from the prior fiscal year to continuously increase the return to shareholders. Furthermore, we decided to add a commemorative dividend of ¥20.0 to the base annual dividend of ¥30.0, for a total dividend of ¥50.0 per share, which is double the amount of the annual dividend for the fiscal year ended March 31, 2015. This increased dividend is intended to celebrate the 80th anniversary of Yakult's foundation during the year, and is an expression of gratitude to shareholders for their steadfast support. We have already declared and paid an interim dividend of ¥25.0 per share, and the balance of ¥25.0 per share will be distributed to our shareholders as the year-end dividend.

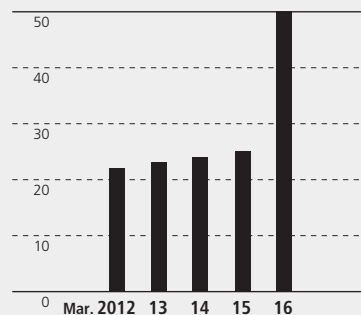
Free Cash Flow

(Billions of yen)



Dividends

(Yen)



For the fiscal year ending March 31, 2017, we plan to increase to ¥30.0 from ¥20.0 the base annual dividend in the policy described above and to continue to raise the annual dividend by ¥2.0 to ¥32.0 in an effort to offer higher returns to shareholders.

FORWARD LOOKING STATEMENT

FOOD AND BEVERAGES

In our domestic Probiotics business, we will update the packages of our mainstay products *Yakult 400* and *Yakult 400LT* to give them a more functional and premium look, and we will revise the pricing. We will take this as an opportunity to further promote value dissemination activities, as well as to demonstrate the high level of our R&D and technological prowess, to further vitalize our brands. In addition, by continuing to strengthen the *New Yakult* and *New Yakult Calorie Half* brands, we will increase our presence in the market while communicating the value of all our fermented milk products as a leading company in the Probiotics field. We will also continue to vitalize the *Joie* series brand by utilizing original packaging featuring Disney character designs.

In juice and other beverages, we will strengthen our mainstay brands, the *Bansoreicha*, *Toughman* and *Milouge* series.

We will continue to bolster our home delivery organization by improving the attractiveness of working as a Yakult Lady and the positive perception of the work that they do. Furthermore, we will work to boost sales by strengthening our response to each market where we anticipate growth.

Outside Japan, we will conduct business expansion in accordance with our medium- to long-term management plan, "Yakult Vision 2020." At existing business offices, we will further expand business, enhance our financial strength, and raise profitability. With respect to the new business offices, particularly those located in Vietnam, India, China, and the United States, we will promote both the strengthening of management bases and business growth. We will also proceed with preparations for the business launch of Yakult Middle East FZE and Yakult Myanmar Co., Ltd.

We will decide on further new overseas expansions after carefully considering the environments both in Japan and abroad.

PHARMACEUTICALS

In Japan, the drug prices revision that took place in April 2016 caused a drop in drug prices for a large portion of our products. Accordingly, we project a decrease in sales. December 2014 saw the release of a generic copy of *Elplat*, an antineoplastic drug, and thus there is concern that people will switch to the generic drug going forward. However, drawing on our

ability to provide information in the field of cancer and our relationships of trusts with individuals in the medical industry established to date, we will work to keep customers choosing our products and focus on early market expansion in the gastric cancer field of *Elplat*, as well as on the further acquisition of market share in the generic drug group.

In R&D, we are promoting new drug development both in Japan and abroad while rapidly assessing the introduction of drugs to strengthen our pipelines. We will also actively develop new generic drugs for cancer and related fields.

OTHERS

In our cosmetics operations, we will continue to expand sales of basic skin care products such as our core brands *Parabio*, *Revecy*, and *Revecy White*, with a focus on home visits to counsel customers on cosmetics, emphasizing the value of our original moisturizing agents, *S.E. (Shirota Essence)*, derived from our research expertise on lactic acid bacteria that has been developed since our foundation.

For the next fiscal year, to commemorate the 45th anniversary of our full-fledged entry into the cosmetics business, we will implement a series of other measures to improve customer satisfaction and drive sales growth. These will include a continuation of marketing measures to encourage people to regularly use our cosmetic series through the trial use of basic cosmetic centered largely on *Parabio*, revamped in November 2015, and selected featured products and services arranged according to the season.

BUSINESS RISKS

This section includes an explanation of business risks associated with business conditions, accounting, and other factors stated in our securities report. This discussion will focus on factors that may have a material impact on investor decisions.

Forward-looking statements contained herein are based on the Group's judgment as of the date of filing of our securities report.

1. Risks Accompanying Global Business Operations

The Group conducts business operations worldwide, and is involved in production and sales activities overseas. As these overseas business sites gain stronger footing, the proportion of overseas business results grows each year.

This trend notwithstanding, consolidated business results as reported in the financial statements are affected by currency exchange rate fluctuations. Moreover, the regions where the Group operates overseas include countries marked by political and economic instability. While we work to mitigate these risks in various ways, there is no guarantee that

such risks can be completely avoided. Moreover, given the underlying differences of social background between many overseas countries and regions and Japan, there is a risk that the unforeseen establishment, amendment, or abolition of certain laws and regulations could provoke problems with respect to Group business activities. The occurrence of such issues could adversely impact our business performance and financial condition.

2. Risks Related to Product Safety

Growing concern regarding food safety and quality assurance among consumers is placing strong pressure on companies to provide unquestionably reliable and safe food products. The Group recognizes that this trend demands greater levels of safety and quality assurance for the products it handles, which are subject to Japan's Food Sanitation Law, Pharmaceutical Affairs Law, and other regulations. As a Group, we also strive to strengthen our quality assurance system, with the provision of safe products as our highest priority.

These efforts notwithstanding, the unexpected occurrence of incidents related to the Group's food products could have an extremely adverse impact on our business results and financial condition.

For this reason, every available step is taken to improve the safety and quality of our food products.

3. Risks Pertaining to Raw Material Prices

The Group's main products consist of dairy products and lactobacillus-based drinks. Sharp increases in procurement prices for the raw materials required for these products, due largely to market supply and demand, could affect manufacturing costs, including costs for containers and other packaging. Moreover, price increases in the crude oil market, especially those sustained over extended periods, could adversely affect transportation costs related to our products. In the event that we are unable to cover the effects of higher raw material prices through cost reductions, or are prevented from enacting price revisions due to market conditions, these trends could have a tremendously adverse impact on the Group's financial condition.

In addition to the aforementioned, the Group faces a range of other risks, including the risks related to unseasonable weather conditions and natural disasters. As such, the aforementioned risks are not an exhaustive list of those that could negatively affect the Group business operations. The Group is aware of these risks, however, and strives to mitigate or avoid their occurrence.

Consolidated Balance Sheet

YAKULT HONSHA CO., LTD. and its subsidiaries
March 31, 2016

	Thousands of U.S. dollars (Note 1)	
	Millions of yen	2016
	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents (Note 11).....	¥ 101,799	¥ 103,402
Time deposits (Notes 5 and 11).....	20,047	16,947
Receivables (Note 11):		
Notes and accounts receivable.....	51,881	51,722
Associated companies	4,856	4,717
Other	4,632	4,871
Inventories (Note 3).....	28,056	31,630
Deferred tax assets (Note 8)	5,036	5,172
Other current assets	5,527	7,753
Allowance for doubtful accounts (Note 11)	(204)	(254)
Total current assets.....	221,630	225,960
Property, plant and equipment:		
Land (Note 5).....	37,234	37,670
Buildings and structures (Note 5).....	159,081	151,622
Machinery, equipment and vehicles.....	142,364	140,259
Furniture and fixtures	24,632	23,476
Lease assets (Note 9).....	20,296	18,833
Construction in progress	4,534	13,232
Total.....	388,141	385,092
Accumulated depreciation (Note 5)	(186,342)	(179,497)
Net property, plant and equipment.....	201,799	205,595
Investments and other assets:		
Investment securities (Notes 4 and 11)	85,755	78,688
Investments in and advances to associated companies (Note 11).....	54,237	52,870
Long-term loans.....	54	98
Goodwill	11	22
Deferred tax assets (Note 8)	1,899	2,637
Other assets (Note 6).....	12,150	13,475
Total investments and other assets	154,106	147,790
Total (Note 17).....	¥ 577,535	¥ 579,345

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)	
	Millions of yen	2016
	2016	2015
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term borrowings (Notes 5 and 11)	¥ 35,418	¥ 36,626
Current portion of long-term debt (Notes 5, 9, and 11)	11,229	8,232
Payables (Note 11):		
Notes and accounts payable	24,653	23,718
Associated companies	99	78
Other	9,143	13,608
Income taxes payable	2,835	3,201
Accrued expenses	20,734	19,674
Deferred tax liabilities (Note 8)	115	96
Other current liabilities	7,388	10,489
Total current liabilities.....	111,614	115,722
Long-term liabilities:		
Long-term debt (Notes 5, 9, and 11)	69,758	74,835
Liability for retirement benefits (Note 6)	9,971	7,947
Asset retirement obligations.....	917	911
Deferred tax liabilities (Note 8)	17,510	14,893
Other long-term liabilities.....	2,300	2,824
Total long-term liabilities	100,456	101,410
Commitments and contingent liabilities (Note 9)		
Equity (Notes 7 and 15):		
Common stock—		
authorized, 700,000,000 shares;		
issued, 175,910,218 shares in 2016 and 2015	31,118	31,118
Capital surplus	41,534	41,537
Retained earnings	290,723	268,077
Treasury stock—at cost		
10,650,620 shares in 2016 and 10,604,397 shares in 2015...	(41,213)	(40,732)
Accumulated other comprehensive income:		
Unrealized gain on available-for-sale securities.....	24,485	20,751
Foreign currency translation adjustments.....	(11,217)	5,096
Defined retirement benefit plans	(3,633)	(833)
Total.....	331,797	325,014
Noncontrolling interests	33,668	37,199
Total equity	365,465	362,213
Total	¥577,535	¥579,345

Consolidated Statement of Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales (Note 17)	¥390,412	¥367,980	\$3,485,827
Cost of sales (Notes 6, 9, and 14).....	171,611	164,990	1,532,243
Gross profit	218,801	202,990	1,953,584
Selling, general and administrative expenses (Notes 6, 9, 13, and 14)	178,744	168,092	1,595,931
Operating income (Note 17)	40,057	34,898	357,653
Other income (expenses):			
Interest and dividend income	4,443	4,004	39,671
Interest expense	(915)	(808)	(8,168)
Foreign exchange gain	2,348	2,841	20,964
Equity in earnings of associated companies	3,314	3,306	29,592
Loss on liquidation of subsidiaries and associates.....	(332)		(2,966)
Loss on impairment.....	(140)	(176)	(1,256)
Other—net (Note 4)	967	1,053	8,633
Other income—net	9,685	10,220	86,470
Income before income taxes	49,742	45,118	444,123
Income taxes (Note 8):			
Current	12,143	11,470	108,423
Deferred	2,952	3,121	26,355
Total income taxes.....	15,095	14,591	134,778
Net income	34,647	30,527	309,345
Net income attributable to noncontrolling interests.....	5,804	5,471	51,817
Net income attributable to owners of the parent	¥ 28,843	¥ 25,056	\$ 257,528

	Yen		U.S. dollars (Note 1)
	2016	2015	2016
Per share of common stock (Note 16):			
Basic net income	¥ 174.54	¥ 151.58	\$ 1.56
Cash dividends applicable to the year.....	50.00	25.00	0.45

Diluted net income per share of common stock for 2016 and 2015 was not calculated due to the absence of dilutive securities.
See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income	¥34,647	¥30,527	\$309,345
Other comprehensive income (Note 12):			
Unrealized gain on available-for-sale securities	3,813	9,805	34,044
Foreign currency translation adjustments.....	(23,193)	14,712	(207,080)
Defined retirement benefit plans	(2,817)	1,080	(25,148)
Share of other comprehensive income (loss) in associates	127	(847)	1,136
Total other comprehensive (loss) income	(22,070)	24,750	(197,048)
Comprehensive income	¥12,577	¥55,277	\$112,297
Total comprehensive income attributable to:			
Owners of the parent.....	¥13,464	¥49,012	\$120,212
Noncontrolling interests	(887)	6,265	(7,915)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2016

	Thousands	Millions of yen									
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive (loss) income			Total	Noncontrolling interests	Total equity
						Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans			
Balance, March 31, 2014 (April 1, 2014, as previously reported)	165,324	¥31,118	¥41,584	¥241,617	¥(40,550)	¥11,141	¥ (8,167)	¥ (1,914)	¥274,829	¥33,204	¥308,033
Cumulative effect of accounting change (Notes 2 (I) and 6)				5,295					5,295		5,295
Balance, April 1, 2014 (as restated)				246,912					246,912		246,912
Net income attributable to owners of the parent				25,056					25,056		25,056
Surplus from disposal of treasury stock			48						48		48
Change in the parent's ownership interest due to transactions with noncontrolling interests.....			(95)	159					64		64
Cash dividends, ¥25.0 per share				(4,050)					(4,050)		(4,050)
Repurchase of treasury stock	(58)				(302)				(302)		(302)
Other decrease in treasury stock	40				120				120		120
Net change in the year						9,610	13,263	1,081	23,954	3,995	27,949
Balance, March 31, 2015	165,306	31,118	41,537	268,077	(40,732)	20,751	5,096	(833)	325,014	37,199	362,213
Net income attributable to owners of the parent				28,843					28,843		28,843
Surplus from disposal of treasury stock			72						72		72
Change in the parent's ownership interest due to transactions with noncontrolling interests.....			(75)						(75)		(75)
Cash dividends, ¥50.0 per share				(6,197)					(6,197)		(6,197)
Repurchase of treasury stock	(82)				(687)				(687)		(687)
Other decrease in treasury stock	36				206				206		206
Net change in the year						3,734	(16,313)	(2,800)	(15,379)	(3,531)	(18,910)
Balance, March 31, 2016	165,260	¥31,118	¥41,534	¥290,723	¥(41,213)	¥24,485	¥ (11,217)	¥ (3,633)	¥331,797	¥33,668	¥365,465

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive (loss) income			Total	Noncontrolling interests	Total equity
					Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Defined retirement benefit plans			
Balance, March 31, 2015	\$277,836	\$370,862	\$2,393,543	\$(363,675)	\$185,275	\$45,503	\$ (7,437)	\$2,901,907	\$332,138	\$3,234,045
Net income attributable to owners of the parent			257,528					257,528		257,528
Surplus from disposal of treasury stock		650						650		650
Change in the parent's ownership interest due to transactions with noncontrolling interests		(670)						(670)		(670)
Cash dividends, \$0.45 per share			(55,325)					(55,325)		(55,325)
Repurchase of treasury stock				(6,138)				(6,138)		(6,138)
Other decrease in treasury stock				1,838				1,838		1,838
Net change in the year					33,343	(145,657)	(25,002)	(137,316)	(31,533)	(168,849)
Balance, March 31, 2016	\$277,836	\$370,842	\$2,595,746	\$(367,975)	\$218,618	\$(100,154)	\$(32,439)	\$2,962,474	\$300,605	\$3,263,079

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating activities:			
Income before income taxes.....	¥ 49,742	¥ 45,118	\$ 444,123
Adjustments for:			
Income taxes—paid.....	(13,454)	(11,848)	(120,127)
Income taxes—refund	296	644	2,644
Depreciation and amortization (Note 17)	24,365	22,793	217,543
Loss on disposals and sales of property, plant and equipment.....	402	280	3,586
Equity in earnings of associated companies	(3,314)	(3,306)	(29,592)
Loss on liquidation of subsidiaries and affiliates	332		2,961
Changes in operating assets and liabilities:			
(Increase) decrease in receivables	(2,261)	2,438	(20,184)
Decrease (increase) in inventories.....	2,095	(1,576)	18,706
Increase (decrease) in payables	1,813	(1,983)	16,189
Increase (decrease) in liability for retirement benefits.....	2,126	(1,091)	18,981
Other—net.....	8	3,938	77
Total adjustments	12,408	10,289	110,784
Net cash provided by operating activities	62,150	55,407	554,907

Investing activities:

Transfers to time deposits.....	(24,789)	(23,037)	(221,334)
Proceeds from withdrawing time deposits	20,297	21,947	181,226
Purchases of property, plant and equipment.....	(30,772)	(45,146)	(274,753)
Proceeds from sales of property, plant and equipment	668	1,217	5,960
Purchases of investment securities.....	(2,347)	(4,107)	(20,951)
Acquisition of controlling interest in companies.....	25	(214)	221
Payments of loans receivable.....		(2)	
Collection of loans receivable		90	
Other—net (Note 4)	(520)	(815)	(4,640)
Net cash used in investing activities	(37,438)	(50,067)	(334,271)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Financing activities:			
Net increase in short-term loans	(1,199)	5,596	(10,705)
Proceeds from long-term debt.....	5,521	4,610	49,296
Payments for settlement of long-term debt	(10,923)	(5,743)	(97,527)
Repurchase of treasury stock	(5)	(8)	(48)
Sales of treasury stock	301	195	2,689
Dividends paid	(6,182)	(4,042)	(55,199)
Dividends paid to noncontrolling interests.....	(2,528)	(2,243)	(22,572)
Other—net.....	(10)		(84)
Net cash used in financing activities.....	(15,025)	(1,635)	(134,150)
Foreign currency translation adjustments on cash and cash equivalents	(11,290)	4,278	(100,802)
Net (decrease) increase in cash and cash equivalents.....	(1,603)	7,983	(14,316)
Cash and cash equivalents resulting from changing scope of consolidation, beginning of year		(205)	
Cash and cash equivalents, beginning of year	103,402	95,624	923,236
Cash and cash equivalents, end of year	¥101,799	¥103,402	\$ 908,920

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

YAKULT HONSHA CO., LTD. and its subsidiaries
Year ended March 31, 2016

NOTE 1 BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which YAKULT HONSHA CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to U.S.\$1, the approximate rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) CONSOLIDATION

The consolidated financial statements as of March 31, 2016, include the accounts of the Company and its 74 (74 in 2015) subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 4 (4 in 2015) associated companies are accounted for by the equity method.

Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

(B) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," which was subsequently revised in February 2010 and March 2015 to reflect revision of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; 3) expensing capitalized development costs of R&D; and 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

(C) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN ASSOCIATED COMPANIES FOR THE EQUITY METHOD

In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," which was subsequently revised in line with the revisions to PITF No. 18 above. The standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; 3) expensing capitalized development costs of R&D; and 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

(D) BUSINESS COMBINATIONS

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR & D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

- (1) *Transactions with noncontrolling interest*—A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.
- (2) *Presentation of the consolidated balance sheet*—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(3) *Presentation of the consolidated statement of income*—In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(4) *Provisional accounting treatments for a business combination*—If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(5) *Acquisition-related costs*—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (1) transactions with noncontrolling interest, (2) presentation of the consolidated balance sheet, (3) presentation of the consolidated statement of income, and (5) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (2) presentation of the consolidated balance sheet and (3) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (2) presentation of the consolidated balance sheet and (3) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (1) transactions with noncontrolling interest and (5) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (1) transactions with noncontrolling interest and (5) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings

for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (2) presentation of the consolidated balance sheet and (3) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (4) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (1) transactions with noncontrolling interest, (2) presentation of the consolidated balance sheet, (3) presentation of the consolidated statement of income and (5) acquisition-related costs above, effective April 1, 2015, and (4) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. With respect to (2) presentation of the consolidated balance sheet and (3) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

As a result, the effect on operating income and income before income taxes for the year ended March 31, 2016 and capital surplus at March 31, 2016 was not material.

(E) CASH EQUIVALENTS

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

(F) INVENTORIES

Inventories are stated at the lower of cost, mainly determined by the moving-average method, or net selling value.

(G) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is mainly computed by the declining-balance method based on the estimated useful lives of assets. On the other hand, the straight-line method is principally applied to the property, plant and equipment of foreign subsidiaries.

Estimated useful lives are as follows:

- The Company and its domestic subsidiaries
 - Buildings and structures 7 to 50 years
 - Machinery, equipment and vehicles 4 to 17 years
- Foreign subsidiaries
 - Buildings and structures 5 to 40 years
 - Machinery, equipment and vehicles 3 to 21 years

The useful lives for leased assets are the terms of the respective leases.

(H) LONG-LIVED ASSETS

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(I) INVESTMENT SECURITIES

The Group classifies all securities as available-for-sale securities, and reports marketable securities at fair value, with unrealized gains and losses (net of applicable taxes) as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(J) RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have noncontributory and contributory funded pension plans covering substantially all of their employees. Certain subsidiaries have unfunded retirement benefit plans.

The Company accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the

Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

- (1) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).
- (2) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 12).
- (3) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (1) and (2) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (3) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (1) and (2) above, effective March 31, 2014, and for (3) above, effective April 1, 2014. With respect to (3) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single-weighted average discount rate reflecting the estimated timing and amount of benefit payment and the method of estimating expected future salary increases from salary increases "expected to be certain" to salary increases "expected," and recorded the effect of (3) above as of April 1, 2014, in retained earnings. As a result, the beginning balance of retirement benefit obligation as of April 1, 2014 decreased by ¥8,225 million and retained earnings as of April 1, 2014 increased by ¥5,295 million.

Also, total equity per share increased by ¥32.03.

Retirement benefits to Directors and Audit and Supervisory Board Members of certain subsidiaries are provided at the amount which would be required if all Directors and Audit and Supervisory Board Members retired at each balance sheet date.

(K) ASSET RETIREMENT OBLIGATIONS

In March 2008, the ASBJ issued ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

(L) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to income as incurred.

(M) LEASES

All finance lease transactions are capitalized to recognize lease assets and lease obligations in the consolidated balance sheet. All other leases are accounted for as operating leases.

(N) INCOME TAXES

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between

the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

(O) FOREIGN CURRENCY TRANSACTIONS

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

(P) FOREIGN CURRENCY FINANCIAL STATEMENTS

The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as “Foreign currency translation adjustments” under accumulated other comprehensive income in a separate component of equity.

Revenue and expense accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the average exchange rate.

(Q) PER SHARE INFORMATION

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share for the years ended March 31, 2016 and 2015, is not disclosed due to the absence of dilutive securities.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

(R) ACCOUNTING CHANGES AND ERROR CORRECTIONS

In December 2009, the ASBJ issued ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections,” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows:

(1) Changes in Accounting Policies:

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors

When an error in prior-period consolidated financial statements is discovered, those statements are restated.

(S) NEW ACCOUNTING PRONOUNCEMENTS

Tax Effect Accounting—On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, “Guidance on Recoverability of Deferred Tax Assets”, which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

International Financial Reporting Standards ("IFRS") 16 "Lease"—On January 13, 2016, the International Accounting Standards Board issued a new accounting standard for lease, IFRS 16 "Leases."

IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases.

The new standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities if IFRS 15 "Revenue from Contracts with Customers" has also been applied.

The Company expects to apply the new standard from the annual period beginning on April 1, 2019, and is in the process of measuring the effects of applying the new standard in future applicable periods.

NOTE 3 INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Merchandise and finished products.....	¥ 8,146	¥ 8,426	\$ 72,729
Work in process.....	3,401	2,787	30,369
Raw materials and supplies.....	16,509	20,417	147,402
Total.....	¥28,056	¥31,630	\$250,500

NOTE 4 INVESTMENT SECURITIES

Investment securities at March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investment securities:			
Marketable equity securities.....	¥82,553	¥76,082	\$737,081
Trust fund investments and other.....	3,202	2,606	28,587
Total.....	¥85,755	¥78,688	\$765,668

The costs and aggregate fair values of investment securities at March 31, 2016 and 2015, were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Securities classified as—				
Available-for-sale:				
Equity securities.....	¥47,913	¥35,739	¥1,099	¥82,553
March 31, 2015				
Securities classified as—				
Available-for-sale:				
Equity securities.....	¥46,315	¥30,028	¥ 261	¥76,082

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Securities classified as—				
Available-for-sale:				
Equity securities.....	\$427,792	\$319,099	\$9,810	\$737,081

Available-for-sale securities whose fair value cannot be reliably determined at March 31, 2016 and 2015, were ¥3,202 million (\$28,587 thousand) and ¥2,606 million, respectively.

Proceeds from sales of available-for-sale securities for the years ended March 31, 2016 and 2015, were ¥53 million (\$470 thousand) and ¥12 million, respectively. Gross realized gain on these sales for the years ended March 31, 2016 and 2015, computed on the moving average cost basis, were ¥17 million (\$152 thousand) and ¥2 million, respectively.

NOTE 5 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings mainly consisting of bank loans, which include notes to banks and bank overdrafts, at March 31, 2016 and 2015, were ¥35,418 million (\$316,232 thousand) and ¥36,626 million, respectively. The annual interest rates applicable to short-term bank loans outstanding at March 31, 2016 and 2015, ranged from 0.33% to 1.39% and 0.43% to 1.91%, respectively.

Long-term debt at March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans from banks and other financial institutions, 0.45% to 4.93% (0.52% to 5.70% in 2015), due serially to 2030:			
Collateralized	¥ 3,818	¥ 4,066	\$ 34,090
Unsecured	68,077	70,827	607,834
Obligations under finance leases (Note 9)	9,092	8,174	81,172
Total	80,987	83,067	723,096
Less current portion	(11,229)	(8,232)	(100,257)
Long-term debt, less current portion	¥69,758	¥74,835	\$622,839

Annual maturities of long-term debt as of March 31, 2016, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥11,229	\$100,257
2018	7,577	67,653
2019	47,219	421,594
2020	6,833	61,005
2021	3,986	35,593
2022 and thereafter	4,143	36,994
Total	¥80,987	\$723,096

The carrying amounts of assets pledged as collateral for long-term debt at March 31, 2016, were as follows:

March 31, 2016	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 11	\$ 95
Land	4,423	39,494
Buildings and structures—net of accumulated depreciation	2,993	26,722
Total	¥7,427	\$66,311

As is customary in Japan, the Company maintains substantial deposit balances with the banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal. General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

NOTE 6 RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have severance payment plans for employees. Certain subsidiaries have severance payment plans for Directors and Audit & Supervisory Board Members.

The plans provide benefits based on the rate of pay at the time of termination, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2016 and 2015, included the amounts of ¥499 million (\$4,460 thousand) and ¥466 million, respectively, for Directors and Audit & Supervisory Board Members. The retirement benefits for Directors and Audit & Supervisory Board Members are paid subject to the approval of the shareholders.

The Company and certain subsidiaries have various noncontributory and contributory plans and other retirement benefit plans.

1. The changes in defined benefit obligation for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥60,215	¥64,956	\$537,637
Cumulative effect of accounting change		(8,225)	
Balance at beginning of year (as restated)	60,215	56,731	537,637
Current service cost.....	3,034	2,877	27,088
Interest cost	669	789	5,973
Actuarial losses	3,799	3,116	33,919
Benefits paid	(3,576)	(3,392)	(31,932)
Others.....	(447)	94	(3,989)
Balance at end of year	¥63,694	¥60,215	\$568,696

2. The changes in plan assets for the years ended March 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year.....	¥52,988	¥46,392	\$473,108
Expected return on plan assets	1,177	1,223	10,510
Actuarial (losses) gains	(770)	3,882	(6,872)
Contributions from the employer	4,538	4,647	40,520
Benefits paid	(3,145)	(3,114)	(28,079)
Others.....	(257)	(42)	(2,301)
Balance at end of year	¥54,531	¥52,988	\$486,886

3. Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Defined benefit obligation	¥60,906	¥57,571	\$543,804
Plan assets	(54,531)	(52,988)	(486,886)
	6,375	4,583	56,918
Unfunded defined benefit obligation	2,788	2,644	24,892
Net liability arising from defined benefit obligation	¥ 9,163	¥ 7,227	\$ 81,810

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liability for retirement benefits.....	¥9,472	¥7,480	\$84,568
Asset for the retirement benefits.....	(309)	(253)	(2,758)
Net liability arising from defined benefit obligation	¥9,163	¥7,227	\$81,810

4. The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost.....	¥3,034	¥2,877	\$27,088
Interest cost.....	669	789	5,973
Expected return on plan assets.....	(1,177)	(1,223)	(10,510)
Recognized actuarial losses	542	950	4,841
Others	99	(10)	883
Net periodic benefit costs.....	¥3,167	¥3,383	\$28,275

5. The amount recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial (losses) gains	¥(4,029)	¥1,741	\$(35,972)
Total	(4,029)	1,741	(35,972)

6. The amount recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial losses.....	¥5,271	¥1,242	\$47,062
Total	5,271	1,242	47,062

7. Plan assets

(1) Components of plan assets

Plan assets as of March 31, 2016 and 2015 consisted of the following:

	2016	2015
Bonds	11%	13%
Stocks.....	24	26
Cash and Deposits	35	26
General accounts	24	24
Others	6	11
Total	100%	100%

(2) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

8. Assumptions used for the years ended March 31, 2016 and 2015, are set forth as follows:

	2016	2015
Discount rate	0.6%	1.1%
Expected rate of return on plan assets.....	2.5	2.5

NOTE 7 EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(A) DIVIDENDS

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders’ meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(B) INCREASES/DECREASES AND TRANSFER OF COMMON STOCK, RESERVE, AND SURPLUS

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

(C) TREASURY STOCK AND TREASURY STOCK ACQUISITION RIGHTS

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

NOTE 8 INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal statutory tax rate of approximately 33.06% and 35.64% for the years ended March 31, 2016 and 2015, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Pension and severance costs.....	¥ 2,979	¥ 2,340	\$ 26,601
Tax loss carryforwards	7,132	6,409	63,678
Accrued bonuses.....	1,841	1,986	16,436
Others.....	7,954	9,449	71,022
Less valuation allowance	(8,655)	(7,407)	(77,277)
Total.....	¥ 11,251	¥12,777	\$100,460
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	¥ 10,543	¥ 9,388	\$ 94,135
Undistributed earnings of foreign subsidiaries and associated companies.....	7,619	6,663	68,023
Unrealized gain on land held by subsidiaries.....	1,293	1,297	11,542
Others.....	2,486	2,609	22,200
Total.....	¥ 21,941	¥19,957	\$195,900
Net deferred tax liabilities.....	¥(10,690)	¥ (7,180)	\$ (95,440)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2016 and 2015, is as follows:

	2016	2015
Normal effective statutory tax rate	33.06%	35.64%
Equity in earnings of associated companies.....	(2.20)	(2.61)
Tax exemption.....	(0.71)	(1.17)
Undistributed earnings of foreign consolidated subsidiaries and associated companies	1.92	3.84
Social expenses not deductible for income tax purposes.....	1.55	1.13
Tax rate differences in foreign subsidiaries	(5.35)	(7.73)
Effect of tax rate reduction.....	0.06	0.26
Others—net.....	2.02	2.98
Actual effective tax rate	30.35%	32.34%

On March 29, 2016, a tax reform law was enacted in Japan, which changed the normal effective statutory rate from approximately 32.34% to 30.86%, effective for years beginning on or after April 1, 2016, and to 30.62%, effective for years beginning on or after April 1, 2018. The effect of this change was to decrease deferred tax liabilities, net of deferred tax assets, by ¥461 million (\$4,118 thousand) and to decrease accumulated other comprehensive income for defined retirement benefit plans by ¥90 million (\$809 thousand) and increase accumulated other comprehensive income for unrealized gain on available-for-sale securities by ¥582 million (\$5,199 thousand), with a decrease of ¥582 million (\$5,199 thousand) in related deferred tax liability, in the consolidated balance sheet as of March 31, 2016, and to increase income taxes—deferred by ¥30 million (\$271 thousand) in the consolidated statement of income for the year then ended.

On March 31, 2016, certain subsidiaries had tax loss carryforwards aggregating approximately ¥19,068 million (\$170,248 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2017.....	¥ 154	\$ 1,374
2018.....	357	3,188
2019.....	454	4,051
2020.....	687	6,133
2021.....	1,003	8,959
2022 and thereafter.....	16,413	146,543
Total.....	¥19,068	\$170,248

NOTE 9 LEASES

The Group leases certain machinery, research equipment, vending machines, computer equipment, and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2016		2016	
	Finance leases	Operating leases	Finance leases	Operating leases
Due within one year.....	¥2,557	¥ 909	\$22,830	\$ 8,118
Due after one year	6,535	1,695	58,342	15,136
Total.....	¥9,092	¥2,604	\$81,172	\$23,254

	Millions of yen	
	2015	
	Finance leases	Operating leases
Due within one year.....	¥2,560	¥ 845
Due after one year	5,614	1,233
Total.....	¥8,174	¥2,078

NOTE 10 RELATED PARTY DISCLOSURES

Transactions of the Company with related parties that are owned by Directors, Audit & Supervisory Board Members, and their close relatives for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Sales	¥6,708	¥4,121	\$59,895
Sales discount and rebate	74	26	659
Collection of loans	7	7	63
Rent of vending machines.....	12	22	113
Temporary receipt	2,195	1,036	19,596
Subsidy of sales expenses.....	32	30	283
Rent of leased assets.....	21	21	187

The balances due to or from these related parties at March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Notes and accounts receivable	¥1,543	¥892	\$13,775
Other receivables	6	4	51
Long-term loans.....	17	25	156
Other payables.....	26	8	236
Accrued expenses	7	8	59
Other current liabilities.....	1	0	5

NOTE 11 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) GROUP POLICY FOR FINANCIAL INSTRUMENTS

The Group uses bank loans based on its capital investment plan mainly for the food and beverages business.

Temporal surplus funds are invested in short-term investments exposed to an insignificant risk of changes in value such as bank deposits. The Group does not invest in speculative instruments in compliance with the Group policy.

(2) NATURE, EXTENT OF RISK, AND RISK MANAGEMENT SYSTEM FOR FINANCIAL INSTRUMENTS

Notes and accounts receivable are exposed to customer credit risk. To manage such credit risk, the Group monitors payment terms and credit information of major customers. Investment securities, mainly held for business-related purposes, are exposed to the risk of market price fluctuations. To manage such market risk, the fair value of the investments are obtained regularly and reported to the Company's Board of Directors.

Payment terms of notes and accounts payable are usually within one year.

Loans are made principally in connection with capital investments. Most of the loans are at variable interest rates and exposed to the risk of interest rate fluctuations. It is the Group's policy not to hedge such market risk by derivatives such as interest-rate swaps as a result of considering the financial market situation and outstanding balance.

Payables and loans are exposed to liquidity risk. The Group manages the risk by reviewing cash flow projections prepared by the accounting and related departments.

(3) FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are based on the quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. The result of estimation might differ if other valuation techniques were used.

	Millions of yen		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2016			
Cash and cash equivalents	¥101,799	¥101,799	
Time deposits	20,047	20,047	
Receivables	61,369		
Allowance for doubtful accounts.....	(204)		
Receivables—net.....	61,165	61,165	
Investment securities.....	82,553	82,553	
Total.....	¥265,564	¥265,564	
March 31, 2015			
Short-term borrowings.....	¥ 35,418	¥ 35,418	
Payables.....	33,895	33,895	
Long-term debt (exclude obligations under finance leases).....	71,895	72,178	¥283
Total.....	¥141,208	¥141,491	¥283
	Millions of yen		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2015			
Cash and cash equivalents	¥103,402	¥103,402	
Time deposits	16,947	16,947	
Receivables	61,310		
Allowance for doubtful accounts.....	(254)		
Receivables—net.....	61,056	61,056	
Investment securities.....	76,082	76,082	
Total.....	¥257,487	¥257,487	
March 31, 2014			
Short-term borrowings.....	¥ 36,626	¥ 36,626	
Payables.....	37,404	37,404	
Long-term debt (exclude obligations under finance leases).....	74,894	75,044	¥150
Total.....	¥148,924	¥149,074	¥150

	Thousands of U.S. dollars		
	Carrying amount	Fair Value	Unrealized gain/loss
March 31, 2016			
Cash and cash equivalents	\$ 908,920	\$ 908,920	
Time deposits	178,994	178,994	
Receivables	547,933		
Allowance for doubtful accounts.....	(1,822)		
Receivables—net.....	546,111	546,111	
Investment securities.....	737,081	737,081	
Total.....	\$2,371,106	\$2,371,106	
Short-term borrowings.....	\$ 316,232	\$ 316,232	
Payables.....	302,637	302,637	
Long-term debt (exclude obligations under finance leases)	641,924	644,451	\$2,527
Total.....	\$1,260,793	\$1,263,320	\$2,527

Cash and cash equivalents, Time deposits, and Receivables

The carrying values of cash and cash equivalents, time deposits, and receivables approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for investment securities by classification is included in Note 4.

Short-term borrowings and Payables (excluding current portion of long-term debt)

The carrying values of short-term borrowings and payables (excluding the current portion of long-term debt) approximate fair value because of their short maturities.

Long-term debt (including current portion of long-term debt)

The fair value of long-term borrowings is determined by discounting the cash flows related to the debt at the Group's assumed corporate discount rate.

(4) FINANCIAL INSTRUMENTS WHOSE FAIR VALUE CANNOT BE RELIABLY DETERMINED

	Carrying amount		Thousands of U.S. dollars
	Millions of yen	2015	
	2016		2016
Investments in equity instruments that do not have a quoted market price in an active market and investments in associated companies.....	¥57,439	¥55,476	\$512,851

(5) MATURITY ANALYSIS FOR FINANCIAL ASSETS

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2016				
Cash and cash equivalents	¥101,799			
Time deposits	20,047			
Receivables	61,369			
Total.....	¥183,215			

	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2015				
Cash and cash equivalents	¥103,402			
Time deposits	16,947			
Receivables	61,310			
Total.....	¥181,659			

	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
March 31, 2016				
Cash and cash equivalents	\$ 908,920			
Time deposits	178,994			
Receivables	547,933			
Total.....	\$1,635,847			

NOTE 12 COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gain on available-for-sale securities:			
Gain arising during the year	¥ 5,496	¥14,495	\$ 49,069
Reclassification adjustments to profit or loss.....		(3)	
Amount before income tax effect.....	5,496	14,492	49,069
Income tax effect	(1,683)	(4,687)	(15,025)
Total.....	¥ 3,813	¥ 9,805	\$ 34,044

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Foreign currency translation adjustment:			
Gain arising during the year	¥(23,417)	¥14,716	\$ (209,084)
Reclassification adjustments to profit or loss.....	332		2,966
Amount before income tax effect.....	(23,085)	14,716	(206,118)
Income tax effect	(108)	(4)	(962)
Total.....	¥(23,193)	¥14,712	\$ (207,080)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Defined retirement benefit plans:			
Gain arising during the year	¥ (4,571)	¥ 791	\$ (40,813)
Reclassification adjustments to profit or loss.....	542	950	4,841
Amount before income tax effect.....	(4,029)	1,741	(35,972)
Income tax effect	1,212	(661)	10,824
Total.....	¥ (2,817)	¥ 1,080	\$ (25,148)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Share of other comprehensive income in associates:			
Gain arising during the year	¥ 161	¥ (776)	\$ 1,442
Reclassification adjustments to profit or loss.....	(34)	(71)	(306)
Total.....	¥ 127	¥ (847)	\$ 1,136
Total other comprehensive income	¥(22,070)	¥24,750	\$ (197,048)

NOTE 13 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The major components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Advertising	¥14,303	¥12,805	\$127,704
Salaries	37,901	35,208	338,406
Net periodic benefit costs.....	2,277	2,783	20,328
Depreciation and amortization	5,238	5,303	46,766
Research and development	12,641	12,098	112,866

NOTE 14 RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥12,678 million (\$113,195 thousand) and ¥12,135 million for the years ended March 31, 2016 and 2015, respectively.

NOTE 15 SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's Board of Directors' meeting held on May 10, 2016:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥25.00 (\$0.22) per share.....	¥4,134	\$36,911

NOTE 16 NET INCOME PER SHARE

Basic net income per share ("EPS") is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share for the years ended March 31, 2016 and 2015, is not disclosed due to the absence of dilutive securities.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
		Weighted average shares		EPS

For the year ended March 31, 2016

Basic EPS:

Net income available to common shareholders	¥28,843	165,250	¥174.54	\$1.56
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	Millions of yen	Thousands of shares	Yen
		Weighted average shares	EPS

For the year ended March 31, 2015

Basic EPS:

Net income available to common shareholders	¥25,056	165,303	¥151.58
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NOTE 17 SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) DESCRIPTION OF REPORTABLE SEGMENTS

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide

how resources are allocated among the Group. Therefore, the Group consists of Food and Beverages (Japan), Food and Beverages (The Americas), Food and Beverages (Asia and Oceania), Food and Beverages (Europe), Pharmaceuticals, and Others.

Food and Beverages (Japan) consists of fermented milk drinks, juice, and noodles, etc.

Food and Beverages (The Americas) consists of fermented milk drinks, etc.

Food and Beverages (Asia and Oceania) consists of fermented milk drinks, etc.

Food and Beverages (Europe) consists of fermented milk drinks, etc.

Pharmaceuticals consists of anticancer drugs and other pharmaceuticals.

Others consist of cosmetics and professional baseball team operation.

(2) METHODS OF MEASUREMENT FOR THE AMOUNTS OF SALES, PROFIT (LOSS), ASSETS, AND OTHER ITEMS FOR EACH REPORTABLE SEGMENT

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) INFORMATION ABOUT SALES, PROFIT (LOSS), ASSETS, AND OTHER ITEMS

	Millions of yen						
	2016						
	Japan	Food and Beverages The Americas	Asia and Oceania	Europe	Pharmaceuticals	Others	Reconciliation Consolidated
Sales							
Sales to external customers.....	¥179,518	¥52,737	¥97,122	¥8,621	¥34,814	¥17,600	¥390,412
Intersegment sales or transfers.....	19,441					2,715	¥(22,156)
Total	198,959	52,737	97,122	8,621	34,814	20,315	(22,156) 390,412
Segment profit (loss)	9,534	12,779	26,981	619	5,361	1,406	(16,623) 40,057
Segment assets	183,372	73,271	164,954	9,281	32,379	13,283	100,995 577,535
Other:							
Depreciation and amortization	12,950	2,087	5,503	466	1,487	580	1,292 24,365
Amortization of goodwill	11						
Investment in associates.....							
Increase in property, plant and equipment and intangible assets ...	13,226	2,390	8,888	109	1,756	389	725 27,483

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥12,329 million of corporate expense that is not allocated to each segment.

2. Reconciliation in segment assets mainly consists of ¥106,578 million of corporate assets that is not allocated to each segment.

3. Reconciliation in depreciation consists of ¥1,292 million of depreciation of the head office.

4. Reconciliation in capital expenditure consists of ¥725 million of capital expenditure of the head office.

Millions of yen								
2015								
	Food and Beverages				Pharmaceuticals	Others	Reconciliation	Consolidated
	Japan	The Americas	Asia and Oceania	Europe				
Sales								
Sales to external customers.....	¥177,383	¥54,644	¥79,176	¥8,892	¥32,560	¥15,325		¥367,980
Intersegment sales or transfers.....	19,868					2,464	¥(22,332)	
Total	197,251	54,644	79,176	8,892	32,560	17,789	(22,332)	367,980
Segment profit (loss)	11,622	12,799	20,396	(183)	5,843	670	(16,249)	34,898
Segment assets	180,819	84,812	156,196	9,863	37,121	12,364	98,170	579,345
Other:								
Depreciation and amortization.....	12,236	2,157	4,098	457	1,928	624	1,293	22,793
Amortization of goodwill.....	11							11
Investment in associates.....								
Increase in property, plant and equipment and intangible assets ...	22,207	1,707	18,340	292	351	436	1,184	44,517

Notes: 1. Reconciliation in segment profit (loss) mainly consists of ¥11,985 million of corporate expense that is not allocated to each segment.

2. Reconciliation in segment assets mainly consists of ¥102,314 million of corporate assets that is not allocated to each segment.

3. Reconciliation in depreciation consists of ¥1,293 million of depreciation of the head office.

4. Reconciliation in capital expenditure consists of ¥1,184 million of capital expenditure of the head office.

Thousands of U.S. dollars								
2016								
	Food and Beverages				Pharmaceuticals	Others	Reconciliation	Consolidated
	Japan	The Americas	Asia and Oceania	Europe				
Sales								
Sales to external customers.....	\$1,602,839	\$470,864	\$867,161	\$76,977	\$310,837	\$157,149		\$3,485,827
Intersegment sales or transfers.....	173,583					24,241	\$(197,824)	
Total	1,776,422	470,864	867,161	76,977	310,837	181,390	(197,824)	3,485,827
Segment profit (loss)	85,129	114,096	240,898	5,523	47,870	12,559	(148,422)	357,653
Segment assets	1,637,251	654,206	1,472,802	82,862	289,102	118,594	901,743	5,156,560
Other:								
Depreciation and amortization.....	115,623	18,631	49,138	4,161	13,279	5,175	11,536	217,543
Amortization of goodwill.....	97							97
Investment in associates.....								
Increase in property, plant and equipment and intangible assets ...	118,086	21,337	79,360	970	15,680	3,476	6,474	245,383

Notes: 1. Reconciliation in segment profit (loss) mainly consists of \$110,077 thousand of corporate expense that is not allocated to each segment.

2. Reconciliation in segment assets mainly consists of \$951,589 thousand of corporate assets that is not allocated to each segment.

3. Reconciliation in depreciation consists of \$11,536 thousand of depreciation of the head office.

4. Reconciliation in capital expenditure consists of \$6,474 thousand of capital expenditure of the head office.

(4) Related information

1. Information about geographical areas

a. Sales

Millions of yen				
2016				
Japan	The Americas	Asia and Oceania	Europe	Total
¥229,860	¥52,769	¥99,102	¥8,681	¥390,412
Millions of yen				
2015				
Japan	The Americas	Asia and Oceania	Europe	Total
¥222,074	¥54,675	¥82,033	¥9,198	¥367,980
Thousands of U.S. dollars				
2016				
Japan	The Americas	Asia and Oceania	Europe	Total
\$2,052,321	\$471,156	\$884,840	\$77,510	\$3,485,827

Note: Sales are classified by country or region based on the location of customers.

b. Property, plant and equipment

Millions of yen				
2016				
Japan	The Americas	Asia and Oceania	Europe	Total
¥125,364	¥18,617	¥55,779	¥2,039	¥201,799
Millions of yen				
2015				
Japan	The Americas	Asia and Oceania	Europe	Total
¥126,314	¥20,736	¥55,903	¥2,642	¥205,595
Thousands of U.S. dollars				
2016				
Japan	The Americas	Asia and Oceania	Europe	Total
\$1,119,324	\$166,219	\$498,026	\$18,205	\$1,801,774

Independent Auditors' Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Member firm of the
Deloitte network
Member of the Deloitte
system
1500 California Street, Suite 1500
San Francisco, CA 94109
U.S.A.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Yakult Honsha Co., Ltd.

We have audited the accompanying consolidated balance sheet of Yakult Honsha Co., Ltd. and its subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Yakult Honsha Co., Ltd. and its subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Consent to Translation

Our audit also comprehensively translated Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 22, 2016

Deloitte Touche Tohmatsu Limited
Member firm of the
Deloitte network

Global Network

(As of April 1, 2016)



PRINCIPAL INTERNATIONAL SUBSIDIARIES AND AFFILIATES

① YAKULT HONSHA CO., LTD.

★ Yakult Central Institute

② Yakult Taiwan Co., Ltd.

③ Hong Kong Yakult Co., Ltd.

④ Yakult (Thailand) Co., Ltd.

⑤ Korea Yakult Co., Ltd.

⑥ Yakult Philippines, Inc.

⑦ Yakult (Singapore) Pte., Ltd.

⑧ P.T. Yakult Indonesia Persada

⑨ Yakult Australia Pty. Ltd.
• New Zealand Branch

⑩ Yakult (Malaysia) Sdn. Bhd.

⑪ Yakult Vietnam Co., Ltd.

⑫ Yakult Danone India Pvt. Ltd.

⑬ Yakult (China) Corporation

⑭ Guangzhou Yakult Co., Ltd.

⑮ Shanghai Yakult Co., Ltd.

⑯ Beijing Yakult Co., Ltd.

⑰ Tianjin Yakult Co., Ltd.

⑱ Wuxi Yakult Co., Ltd.

⑲ Yakult Myanmar Co., Ltd.

⑳ Yakult Middle East FZE

㉑ Yakult S/A Ind. E Com. (Brazil)

㉒ Yakult S.A. de C.V. (Mexico)

㉓ Yakult U.S.A. Inc.

㉔ Yakult Europe B.V.

㉕ Yakult Nederland B.V.

㉖ Yakult Belgium N.V./S.A.

㉗ Yakult UK Ltd.
• Ireland Branch

㉘ Yakult Deutschland GmbH

㉙ Yakult Oesterreich GmbH

㉚ Yakult Italia S.R.L.

★ Yakult Honsha European Research
Center for Microbiology, ESV

Countries where test and other sales are conducted: Luxembourg, France, Spain, Brunei, Uruguay, Canada, Belize, Malta and Switzerland

Corporate Data

(As of March 31, 2016)

CORPORATE NAME	YAKULT HONSHA CO., LTD.
DATE FOUNDED	1935
DATE INCORPORATED	April 9, 1955
HEAD OFFICE	1-19, Higashi Shimbashi 1-chome, Minato-ku, Tokyo 105-8660, Japan URL: http://www.yakult.co.jp/
PAID-IN CAPITAL	¥31,117,654,815
ANNUAL ACCOUNT SETTLEMENT DATE	March 31
NUMBER OF EMPLOYEES	23,192 (Consolidated)
NUMBER OF ISSUED AND OUTSTANDING SHARES	175,910,218
NUMBER OF SHAREHOLDERS	23,407* * Including shareholders who own shares of less than one unit

OFFICES

1 head office, 1 institute, 5 branches, 7 plants

● **Head Office**

★ **Yakult Central Institute**

Branches

Ⓐ **Hokkaido Branch**

Ⓑ **East Japan Branch**

Ⓒ **Metropolitan Branch**

Ⓓ **Central Japan Branch**

Ⓔ **West Japan Branch**

Plants

① **Fukushima Plant**

② **Ibaraki Plant**

③ **Shonan Cosmetics Plant**

④ **Fuji Susono Plant**

⑤ **Fuji Susono Pharmaceuticals Plant**

⑥ **Hyogo Miki Plant**

⑦ **Saga Plant**

MAJOR SUBSIDIARIES IN JAPAN

Yakult Tokyo Sales Co., Ltd.

Yakult Okayama Wake Plant Co., Ltd.

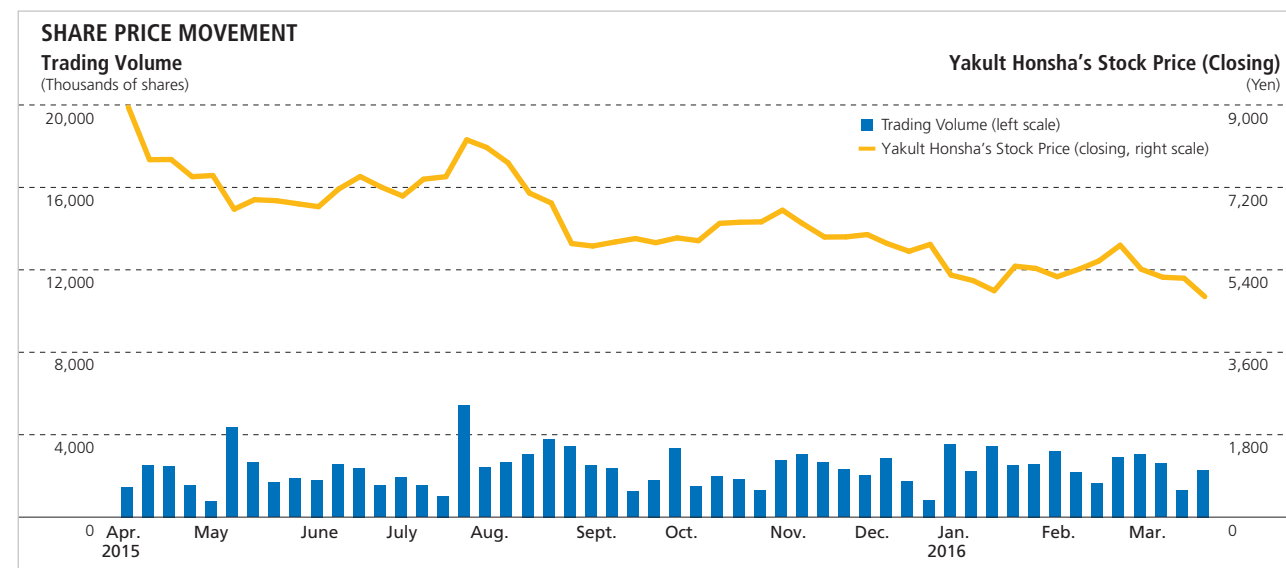
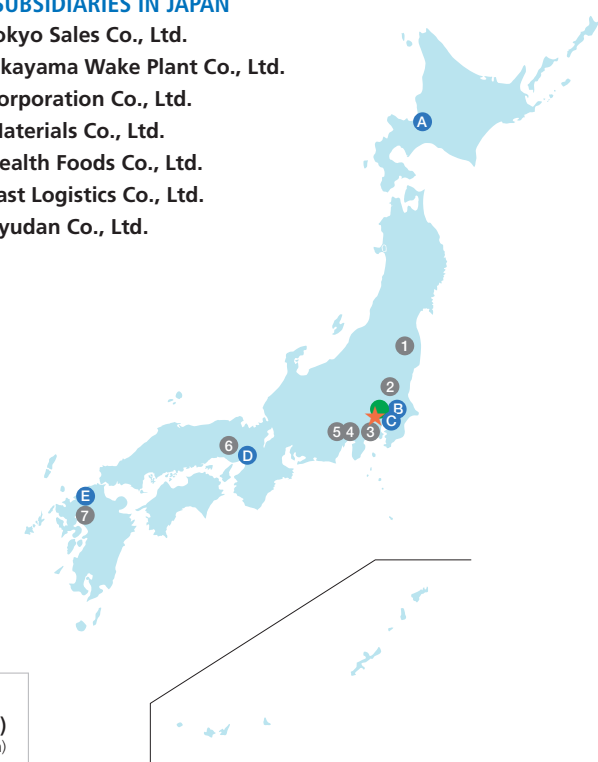
Yakult Corporation Co., Ltd.

Yakult Materials Co., Ltd.

Yakult Health Foods Co., Ltd.

Yakult East Logistics Co., Ltd.

Yakult Kyudan Co., Ltd.





YAKULT HONSHA CO., LTD.

1-19, Higashi Shimbashi 1-chome,
Minato-ku, Tokyo 105-8660, Japan
Phone: +81-3-3574-8960
URL: <http://www.yakult.co.jp/>



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